

# THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

**If you have sold or otherwise transferred** all your shares in Geely Automobile Holdings Limited, you should at once hand this document and the Form of Acceptance to the purchaser(s) or transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s). This document should be read in conjunction with the Form of Acceptance, the contents of which form part of the terms of the offer contained herein.

## GEELY GROUP LIMITED

*(incorporated in the British Virgin Islands with limited liability)*



吉利汽車控股有限公司

GEELY AUTOMOBILE HOLDINGS LIMITED

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 175)

**COMPOSITE OFFER AND RESPONSE DOCUMENT  
RELATING TO THE  
UNCONDITIONAL MANDATORY GENERAL OFFER BY  
G.K. GOH SECURITIES (H.K.) LIMITED  
ON BEHALF OF  
GEELY GROUP LIMITED  
FOR ALL THE ISSUED SHARES IN  
GEELY AUTOMOBILE HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY  
BENEFICIALLY OWNED OR AGREED TO BE ACQUIRED BY  
GEELY GROUP LIMITED OR  
PARTIES ACTING IN CONCERT WITH IT)**

Financial adviser to Geely Group Limited



G.K. Goh Securities (H.K.) Limited

Joint Independent Financial Advisers to the Independent Board Committee of  
Geely Automobile Holdings Limited



大福融資有限公司  
TAI FOOK CAPITAL LIMITED



交通證券有限公司  
BCOM SECURITIES COMPANY LIMITED

A letter from the Independent Board Committee of Geely Automobile Holdings Limited containing its recommendation in respect of the Offer to the Independent Shareholders of Geely Automobile Holdings Limited is set out on pages 18 to 19 of this document and a letter from the Joint Independent Financial Advisers, Tai Fook and BCOM, containing their advice to the Independent Board Committee of Geely Automobile Holdings Limited is set out on pages 20 to 36 of this document.

The procedures for acceptance and related information of the Offer are set out in Appendix I to this document and in the accompanying Form of Acceptance. Acceptance of the offer should be received by no later than 4:00 p.m. on Tuesday, 21 June 2005 (or such other time and/or date as the Offeror may decide).

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## EXPECTED TIMETABLE

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2005

Opening date of the Offer .....	Tuesday, 31 May 2005
Latest time for acceptance of the Offer .....	4:00 p.m. on Tuesday, 21 June 2005
Closing date of the Offer ( <i>Note 1</i> ) .....	Tuesday, 21 June 2005
Announcement of the results of the Offer through the Stock Exchange's website .....	By 7:00 p.m. on Tuesday, 21 June 2005
Announcement of results of the Offer to be published in newspaper .....	Wednesday, 22 June 2005
Latest time for posting of remittances for the amounts due under the Offer in respect of valid acceptances received on or before the Closing Date ( <i>Note 2</i> ) .....	Thursday, 30 June 2005

*Notes:*

1. The Offer, which is unconditional, will be closed on Tuesday, 21 June 2005 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code.
2. The consideration payable for the Shares tendered under the Offer will be paid as soon as possible but in any event within 10 days of the date of receipt by the Registrar of the requisite documents from the Shareholders accepting the Offer.
3. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn subject to compliance by the Offeror with Rule 19 of the Takeovers Code.

**All time references contained in this document refer to Hong Kong time.**

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## DEFINITIONS

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*Unless the context requires otherwise, the following expressions have the following meanings in this document:*

“acting in concert”	the same meaning ascribed to it under the Takeovers Code
“associate(s)”	the same meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“BCOM”	BCOM Securities Company Limited, a corporation licensed to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
“CCASS”	the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited
“Closing Date”	4:00 p.m. on Tuesday, 21 June 2005 or if the Offer is extended, the closing date of the Offer as extended in accordance with the Takeovers Code
“Company”	Geely Automobile Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose shares are listed on the main board of the Stock Exchange
“Completion”	completion of the Share Transfer Agreement
“Director(s)”	the director(s) of the Company
“Fortune Door”	Fortune Door Investment Limited, one of the Vendors interested in 28% of the issued share capital of Proper Glory prior to Completion, is a private company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Ku Wai Kwan, an executive Director
“Form of Acceptance”	the white form of acceptance and transfer accompanying this document relating to the Offer
“G.K. Goh”	G.K. Goh Securities (H.K.) Limited, a corporation licensed to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO
“Group”	the Company and its subsidiaries

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Board Committee”	an Independent board committee comprising the two independent non-executive Directors, namely Mr. Lee Cheuk Yin, Dannis and Mr. Song Lin
“Independent Shareholders”	Shareholders other than Proper Glory and its associates and parties acting in concert with any of them
“Joint Announcement”	the press announcement dated 10 May 2005 jointly made by the Offeror and the Company relating to, among other things, the Offer
“Joint Independent Financial Advisers”	Tai Fook and BCOM
“Latest Practicable Date”	27 May 2005, being the latest practicable date prior to the printing of this document for the purpose of ascertaining certain information contained herein
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. He”	Mr. He Xuechu, one of the Vendors under the Share Transfer Agreement and was interested in 32% of the issued share capital of Proper Glory prior to Completion, is the chairman and an executive Director
“Mr. Li”	Mr. Li Shu Fu, the sole shareholder and sole director of the Offeror, and is indirectly interested in the entire issued share capital of Proper Glory
“Offer”	the unconditional mandatory cash offer made by G.K. Goh on behalf of the Offeror for all outstanding Shares other than those already owned or agreed to be acquired by the Offeror or parties acting in concert with it
“Offeror”	Geely Group Limited (formerly known as Sapient Group Limited), a company incorporated on 3 December 2003 in the British Virgin Islands with limited liability and which is beneficially owned as to 100% by Mr. Li
“Options”	employee share options granted by the Company to subscribe for new Shares

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## DEFINITIONS

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“Optionholder”	Mr. Ang Siu Lun, Lawrence, an executive Director, interested in 35 million Options
“Overseas Shareholders”	Shareholders whose registered addresses are outside Hong Kong or who are citizens, residents or nationals of jurisdictions outside Hong Kong
“PG Shares”	68 shares in Proper Glory, representing 68% of the issued share capital of Proper Glory
“PRC”	the People’s Republic of China
“Proper Glory”	Proper Glory Holding Inc., a company incorporated in the British Virgin Islands with limited liability, is the controlling Shareholder interested in approximately 60.68% of the issued share capital of the Company and is owned as to 100% by the Offeror, and was in turn owned as to 32% by the Offeror, 32% by Mr. He, 28% by Fortune Door and 8% by Venture Link before Completion
“Registrar”	the share registrar of the Company in Hong Kong, Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong
“Relevant Period”	the period from the date commencing six months prior to 11 January 2005, being the date of the first announcement published in relation to the Offer, up to and including the Latest Practicable Date
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.02 each in the issued share capital of the Company
“Shareholders”	holders of Shares
“Share Offer Price”	HK\$0.09 per Share payable under the Offer
“Share Transfer Agreement”	the conditional agreement for the sale and purchase of the PG Shares dated 6 May 2005 between the Offeror and the Vendors
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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## DEFINITIONS

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“Tai Fook”	Tai Fook Capital Limited, a corporation licensed to conduct type 6 (advising on corporate finance) regulated activity under the SFO
“Takeovers Code”	The Code on Takeovers and Mergers of Hong Kong
“Vendors”	Mr. He, Fortune Door and Venture Link
“Venture Link”	Venture Link Assets Limited, one of the Vendors interested in 8% of the issued share capital of Proper Glory prior to Completion, is a private company incorporated in the British Virgin Islands with limited liability and is wholly owned by Mr. Zhou Teng, an executive Director
“%”	per cent.



吉利汽車控股有限公司  
GEELY AUTOMOBILE HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code:175)

*Executive Directors:*

Mr. He Xuechu (*Chairman*)

Mr. Xu Xing Yao

Mr. Ang Siu Lun, Lawrence

Mr. Ku Wai Kwan

Mr. Zhou Teng

Mr. Nan Yang

Mr. Zhang Zhe

Mr. Wong Hing Kwok

*Registered office:*

P.O. Box 309

George Town

Grand Cayman

Cayman Islands

British West Indies

*Principal place of business in Hong Kong:*

Room 2301, 23rd Floor

Great Eagle Centre

23 Harbour Road

Wanchai

Hong Kong

*Independent non-executive Directors:*

Mr. Lee Cheuk Yin, Dannis

Mr. Song Lin

31 May 2005

*To the Shareholders*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL OFFER BY  
G.K. GOH SECURITIES (H.K.) LIMITED  
ON BEHALF OF  
GEELY GROUP LIMITED  
FOR ALL THE ISSUED SHARES IN  
GEELY AUTOMOBILE HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY  
BENEFICIALLY OWNED OR AGREED TO BE ACQUIRED BY  
GEELY GROUP LIMITED OR  
PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

On 10 May 2005, the Company and the Offeror jointly announced that the Vendors entered into the Share Transfer Agreement on 6 May 2005 with the Offeror pursuant to which the Vendors conditionally agreed to dispose to the Offeror 68 PG Shares, representing their entire interest of 68% of the issued share capital of Proper Glory, for a total cash consideration of HK\$153 million. Prior to Completion, the Offeror was interested in the remaining 32% interest of the issued share capital of Proper Glory. Proper Glory is the existing controlling Shareholder interested in 2,500 million Shares, representing approximately 60.68% of the issued share capital of the Company.



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## LETTER FROM THE BOARD

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On 19 May 2005, the Company and the Offeror jointly announced that Completion took place on 19 May 2005. Following Completion, the Offeror and parties acting in concert with it became interested in 2,500 million Shares, representing approximately 60.68% of existing issued share capital of the Company as at the Latest Practicable Date. Under Rule 26 of the Takeovers Code, the Offeror is obliged to make a mandatory unconditional cash offer for all the Shares not already owned by the Offeror or parties acting in concert with it. G.K. Goh is making the Offer on behalf of the Offeror.

The Board currently comprises eight executive Directors and two independent non-executive Directors. Mr. He is one of the Vendors and a salaried executive Director and a director of Proper Glory. Mr. Ku Wai Kwan is the beneficial owner and director of Fortune Door while Mr. Zhou Teng is the beneficial owner and director of Venture Link. Mr. Ku Wai Kwan and Mr. Zhou Teng are also salaried executive Directors and directors of Proper Glory. Mr. Ang Siu Lun, Lawrence, is a salaried executive Director and the Optionholder. Mr. Nan Yang and Mr. Zhang Zhe are salaried executive Directors and salaried directors of the Offeror. Mr. Wong Hing Kwok is a salaried executive Director and a director of Proper Glory. Mr. Xu Xing Yao is a salaried executive Director. Accordingly, the executive Directors of the Company are considered not sufficiently independent to participate in formulating a recommendation to the Independent Shareholders so as to avoid any conflict of interests which may arise. In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee, comprising Messrs. Lee Cheuk Yin, Dannis and Song Lin, who are independent non-executive Directors, will consider and advise the Independent Shareholders on the terms of the Offer. Tai Fook and BCOM have been appointed as the Joint Independent Financial Advisers to the Independent Board Committee to advise on the terms of the Offer.

The purpose of this document is, among other things, to provide you with information relating to the Group and the Offer and to set out the letter from the Independent Board Committee containing its recommendation on the Offer and the letter from the Joint Independent Financial Advisers with its advice to the Independent Board Committee in respect of the Offer.

### THE OFFER

As set out in the letter from G.K. Goh in this document, G.K. Goh is making, on behalf of the Offeror, the Offer on the following basis:

**For each Share ..... HK\$0.09 payable in cash**

Under the Offer, the Shares will be acquired free from all encumbrances and together with all rights and benefits, including all rights to any dividend or other distribution declared, made or paid after the date of acceptance.

The Share Offer Price is equivalent to the implied price per Share paid by the Offeror under the Share Transfer Agreement.

As at the Latest Practicable Date, the Company has 35 million outstanding Options, which was granted to the Optionholder, and if exercised in full would result in the issue of additional 35 million Shares (representing approximately 0.84% of the issued share capital of the Company as enlarged by such exercise in full of such outstanding Options). The exercise period of the Options is from 23 February 2004 to 22 February 2009. The Offeror has received an irrevocable undertaking given by the Optionholder that he will not exercise the Options and will not accept any offer in relation to the Options. On this basis, no offer will be made to the Optionholder for the cancellation of the Options. As at the Latest Practicable Date, save for the irrevocable undertaking received from the Optionholder, the Offeror or person acting in concert with it has not received any other irrevocable commitment to accept the Offer.

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## LETTER FROM THE BOARD

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As at the Latest Practicable Date, save for the Options referred to above, the Company has no other convertible securities, options, derivatives or warrants outstanding and has not entered into any agreement for the issue of any convertible securities, options, warrants or derivatives of the Company.

### Further details of the Offer

Further details of the Offer, among other things, the terms and conditions and the procedures for acceptance are set out in the letter from G.K. Goh on pages 10 to 17 of this document, Appendix I to this document and the accompanying Form of Acceptance.

### INFORMATION ON THE COMPANY

The Group is principally engaged in the manufacturing and trading of automobile parts and related automobile components in the PRC. The following is a summary of the Group's audited financial results for each of the two years ended 31 December 2004:

	For the year ended 31 December	
	2003	2004
	HK\$'000	HK\$'000
Turnover	39,872	41,123
Profit attributable to shareholders	57,486	84,394

The audited consolidated net asset value of the Group amounted to approximately HK\$653.4 million as at 31 December 2004.

Your attention is drawn to Appendix II to this document which contains further financial information of the Group.

### INFORMATION ON THE OFFEROR AND ITS INTENTIONS REGARDING THE GROUP

Your attention is drawn on the sections headed "Information on the Offeror" and "Intentions of the Offeror regarding the Group" in the letter from G.K. Goh set out on page 13 of this document.

### CHANGES TO THE BOARD AND MANAGEMENT OF THE COMPANY

Your attention is drawn on the sections headed "Intention of the Offeror regarding the Group – Directors and management" in the letter from G.K. Goh set out on pages 14 of this document.

### MAINTAINING OF LISTING STATUS OF THE COMPANY

The Offeror notified the Company that it is its intention to maintain the listing of the Shares on the Stock Exchange after the closing of the Offer. The Directors, the Offeror and the new Directors nominated by the Offeror and to be appointed to the Board have undertaken that following the closing of the Offer, appropriate steps will be taken as soon as possible to ensure that not less than 25% of the Shares will be held by the public.

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## LETTER FROM THE BOARD

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The Offeror has no intention to transfer the Shares to be acquired under the Offer to any other persons, save for the possible disposal after the closing of the offer to ensure that not less than 25% of the Shares will be held in public hands.

**The Stock Exchange stated that if, at the closing of the Offer, less than 25% of the Shares are held by the public or if the Stock Exchange believes that:**

- **a false market exists or may exist in the trading of the Shares; or**
- **there are too few Shares in public hands to maintain an orderly market,**

**then the Stock Exchange will consider exercising its discretion to suspend trading in the Shares until a sufficient level of public float is attained.**

**The Stock Exchange will closely monitor all future acquisitions or disposals of assets by the Company. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and a circular to the Shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company. The Stock Exchange also has the power, pursuant to the Listing Rules, to aggregate a series of acquisitions or disposals of the Company and any such transactions may result in the Company being treated as if it were a new listing applicant and subject to the requirements for new listing applicants set out in the Listing Rules.**

### RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee and the letter from the Joint Independent Financial Advisers, which set out their recommendations to the Independent Board Committee in relation to the Offer and the principal factors considered by them in arriving at their recommendations. The letter from the Independent Board Committee is set out on pages 18 to 19 and the letter from the Joint Independent Financial Advisers on pages 20 to 36.

You are also recommended to read the letter from G.K. Goh as set out on pages 10 to 17, the further terms of the Offer as set out in Appendix I to this document and the accompanying Form of Acceptance.

### ADDITIONAL INFORMATION

In considering what action to take in connection with the Offer, Shareholders should consider their own tax positions and, if they are in doubt, they should consult their professional advisers.

Your attention is also drawn to the additional information contained in Appendices II to III to this document.

By order of the Board  
**Geely Automobile Holdings Limited**  
**He Xuechu**  
*Chairman*

31 May 2005

*To the Shareholders*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL OFFER BY  
G.K. GOH SECURITIES (H.K.) LIMITED  
ON BEHALF OF  
GEELY GROUP LIMITED  
FOR ALL THE ISSUED SHARES IN  
GEELY AUTOMOBILE HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY  
BENEFICIALLY OWNED OR AGREED TO BE ACQUIRED BY  
GEELY GROUP LIMITED OR  
PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

On 10 May 2005, the Company and the Offeror jointly announced that the Vendors entered into the Share Transfer Agreement on 6 May 2005 with the Offeror, pursuant to which the Vendors conditionally agreed to dispose to the Offeror 68 PG Shares, representing their entire interest of 68% of the issued share capital of Proper Glory, for a total cash consideration of HK\$153.0 million. Prior to Completion, the Offeror was interested in the remaining 32% interest of the issued share capital of Proper Glory. Proper Glory is the existing controlling Shareholder interested in 2,500 million Shares, representing approximately 60.68% of the issued share capital of the Company.

The consideration of HK\$153.0 million payable under the Share Transfer Agreement was arrived at after arm's length negotiation amongst the Offeror and the Vendors. Based on the total consideration paid by the Offeror under the Share Transfer Agreement, the implied consideration paid by the Offeror for the 1,700 million Shares held by Proper Glory is equivalent to approximately HK\$0.09 per Share.

On 19 May 2005, the Company and the Offeror jointly announced that Completion took place on 19 May 2005. Following Completion, the Offeror and parties acting in concert with it became interested in 2,500 million Shares, representing approximately 60.68% of existing issued share capital of the Company as at the Latest Practicable Date. Under Rule 26 of the Takeovers Code, the Offeror is obliged to make a mandatory unconditional cash offer for all the Shares not already owned by the Offeror or parties acting in concert with it. G.K. Goh is making the Offer on behalf of the Offeror.

Save for the Share Transfer Agreement, neither the Offeror nor any parties acting in concert with it has dealt in any Shares or any other securities convertible into Shares, including warrants, options or subscription rights, during the six months prior to the date of the Joint Announcement.

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# LETTER FROM G.K. GOH

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## TERMS OF THE OFFER

G.K. Goh makes, on behalf of the Offeror, a mandatory unconditional cash offer which will be subject to the conditions and terms set out in this document, on the following basis:

**For each Share ..... HK\$0.09 in cash**

Under the Offer, the Shares will be acquired free from all encumbrances and together with all rights and benefits, including all rights to any dividend or other distribution declared, made or paid after the date of acceptance.

### The Offer

The Share Offer Price is equivalent to the implied price per Share paid by the Offeror under the Share Transfer Agreement, which represents:

- (a) a discount of approximately 79.5% to the closing price of Shares on the Stock Exchange of HK\$0.44 per Share on the Latest Practicable Date;
- (b) a discount of approximately 80.4% to the closing price of Shares on the Stock Exchange of HK\$0.460 per Share on 6 May 2005, being the last trading day prior to the date of the Joint Announcement;
- (c) a discount of approximately 75.3% to the closing price of Shares on the Stock Exchange of HK\$0.365 per Share on 10 January 2005, being the last trading day prior to the date of the first announcement in relation to the Offer;
- (d) a discount approximately 80.4% to the average closing price of Shares on the Stock Exchange of HK\$0.459 per Share for the 10 trading days up to and including the last trading day immediately prior to the date of the Joint Announcement; and
- (e) a discount of approximately 43.4% to the audited consolidated net tangible asset value per Share of approximately HK\$0.159 as at 31 December 2004 (based on the Group's audited consolidated net asset value of approximately HK\$653.4 million as at 31 December 2004 and 4,120,264,902 Shares in issue).

During the six-month period preceding 11 January 2005, being the date of the first announcement published in relation to the Offer, and up to the Latest Practicable Date, the highest closing price of Shares on the Stock Exchange was HK\$0.59 (on 12 July 2004) and the lowest closing price of Shares on the Stock Exchange was HK\$0.345 per Share (on 28 September 2004).

## **Options**

As at the Latest Practicable Date, the Company has 35 million outstanding Options, which was granted to the Option holder, and if exercised in full would result in the issue of additional 35 million Shares (representing approximately 0.84% of the issued share capital of the Company as enlarged by such exercise in full of such outstanding Options). The exercise period of the Options is from 23 February 2004 to 22 February 2009 and the exercise price is HK\$0.95. The Offeror has received an irrevocable undertaking given by the Optionholder that he will not exercise the Options and will not accept any offer in relation to the Options. On this basis, no offer will be made to the Optionholder for the cancellation of the Options. As at the Latest Practicable Date, save for the irrevocable undertaking received from the Optionholder, the Offeror or person acting in concert with it has not received any other irrevocable commitment to accept the Offer.

As at the Latest Practicable Date, save for the Options referred to above, the Company has no other convertible securities, options, derivatives or warrants outstanding and has not entered into any agreement for the issue of any convertible securities, options, warrants or derivatives of the Company.

## **Total consideration for the Offer**

Based on the total number of 4,120,264,902 Shares in issue as at the Latest Practicable Date, the Share Offer values the Company at approximately HK\$370.8 million. Such valuation has been determined after arm's length negotiations between the Offeror and the Vendors.

Pursuant to a loan agreement entered into between the Vendors and the Offeror dated 6 May 2005, the Vendors have agreed to provide a loan of up to HK\$153.0 million to the Offeror for the sole purpose of making the Offer, and the Vendors have also agreed not to withdraw such loan during the Offer period. The Offeror has confirmed that the payment of interest on, repayment of or security for any liability (contingent or otherwise) arising from the loan will not depend to any significant extent on the business of the Group.

On this basis, G.K. Goh is satisfied that sufficient financial resources are available to the Offeror to meet full acceptance of the Offer.

## **Unconditional offer**

The Offer is unconditional and is not conditional on the attaining of any particular level of acceptance in respect of the Offer.

## **Compulsory acquisition**

The Offeror does not intend to apply any right which may be made available to it to acquire compulsorily any Shares outstanding after the closing of the Offer.

## **Effects of accepting the Offer**

Acceptance of the Offer by any Shareholder will be deemed to constitute a warranty by such person that all Shares sold by such person under the Offer are free from all liens, charges, options, claims, equities, adverse interests, third-party rights or encumbrances whatsoever and together with all rights accruing or attaching thereto, including, without limitation, the right to receive dividends and distributions declared, made or paid, if any, on or after the date of acceptance.

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## LETTER FROM G.K. GOH

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The making of the Offer to persons with a registered address in jurisdictions outside Hong Kong may be affected by the applicable laws of the relevant jurisdictions. Shareholders who are citizens or residents or nationals of jurisdictions outside Hong Kong should inform themselves about and observe any applicable legal requirements in their own jurisdictions.

### **Stamp duty**

The Offeror will pay the seller's ad valorem stamp duty arising in connection with the acceptances of the Offer amounting to HK\$1.00 for every HK\$1,000 or part thereof of the consideration which the accepting Shareholders will become liable to pay and will be deducted from the proceeds due to such accepting Shareholders under the Offer.

### **INFORMATION ON THE OFFEROR**

The Offeror is a private company incorporated in the British Virgin Islands with limited liability. Since its incorporation, the Offeror has not carried out any business activity other than its indirect beneficial interest in the Company and the cash equivalent assets, which are designated for making the Offer. Mr. Li is the sole shareholder and sole director of the Offeror. Information relating to Mr. Li is set out in the section headed "Directors and management" below.

Prior to Completion, the Offeror was interested in 32% of the issued share capital of Proper Glory. Following Completion on 19 May 2005, the Offeror and parties acting in concert with it are interested in the entire issued share capital of Proper Glory, which in turn holds 2,500 million Shares, representing approximately 60.68% of the issued share capital of the Company.

The Offeror considers that the Share Transfer Agreement presented an opportunity for it to gain a controlling interest in the Company.

### **INTENTIONS OF THE OFFEROR REGARDING THE GROUP**

#### **Business**

The Offeror intends that the Group will continue with all of its existing businesses. The Offeror does not intend to make any material changes to the businesses of the Group or to redeploy any fixed assets of the Company following the closing of the Offer.

The Offeror is the ultimate controlling Shareholder and thus a connected person of the Company, any proposed acquisition of assets from or to the Offeror will constitute connected transactions for the Company under the Listing Rules and will be subject to the provisions of the Listing Rules and as the case may be, the approval of Independent Shareholders other than the Offeror and its associates at an extraordinary general meeting of the Company. The Offeror considers to raise the Group's shareholdings in two associated companies namely, Zhejiang Geely Automobile Company Limited and Shanghai Maple Guorun Automobile Company Limited to over 50%, subject to the PRC government approval and compliance with relevant regulations. However, as at the Latest Practicable Date, there is no concrete plan or timetable for the said increase in shareholding of the two associates, nor there is any other plans for any proposed acquisition of assets from or to the Offeror or any of its associates following the closing of the Offer.

### Directors and management

The Board is currently made up of 10 Directors, comprising eight executive Directors and two independent non-executive Directors. Upon closing of the Offer, six of the existing executive Directors namely, Mr. He, Messrs. Xu Xing Yao, Ku Wai Kwan, Zhou Teng, Zhang Zhe and Wong Hing Kwok will resign. The Offeror intends to nominate the following seven persons as executive Directors, such appointments will take effect after despatch of this document. Biographical details of the seven proposed executive Directors are as follows:

**Mr. Li Shu Fu**, aged 42, is the controlling shareholder, founder, chairman of the board of Zhejiang Geely Holding Limited (a company incorporated in the PRC and is ultimately owned by Mr. Li and his associates). Zhejiang Geely Holding Limited and its subsidiaries are principally engaged in manufacturing and sales of automobiles in the PRC. Mr. Li is also the chairman of the two associated companies of the Company namely, Zhejiang Geely JV and Shanghai Maple JV. Mr. Li has over 20 years of experience in the investment and management of the automobile manufacturing business and real estate business in the PRC. Mr. Li is a member of the Chinese People's Political Consultative Conference. Mr. Li holds a master degree in engineering from Yan Shan University.

**Mr. Xu Gang**, aged 44, is the head of Shanghai Maple JV's management committee. Mr. Xu graduated from Taizhou College and is studying EMBA degree in the Guanghua Management School of Beijing University. Mr. Xu is a professional expert in business management and has 23 years of experience in the management and leadership of various government departments. Mr. Xu was accredited as "The Best CEO/President of Private Automobile Enterprises in 2003" by a pertinent organization in China. Mr. Xu is now in charge of the overall administration of the Shanghai Maple JV.

**Mr. Yang Jian**, aged 43, is the First Vice President of Zhejiang Geely Holding Limited and Head of Zhejiang Geely Automobile Research Institute Ltd., which is 90% owned by Shanghai Maple JV. Mr. Yang graduated from Zhejiang Radio and Television University with focus on production management. Since joining Zhejiang Geely Holding Limited in 1995, Mr. Yang was involved in a number of different job functions within the group including production management, quality control, general administration, research and development and project management. Mr. Yang is now in charge of general administration of Zhejiang Geely Holding Limited and Zhejiang Geely Automobile Research Institute Ltd..

**Mr. Shim Bong Sup**, aged 60, is the Vice President and Technical Consultant of Zhejiang Geely Holding Limited. Mr. Shim holds a Bachelor degree in metallurgical engineering and has extensive experience in the Korean automotive industry for more than 36 years experience, especially in new car development, automotive technology and quality assurance. Mr. Shim was the vice president of Daewoo Motor and the chairman of Korean Automobile Engineering Association.

**Mr. Yin Da Qing, Richard**, aged 55, is the Vice President and Chief Financial Officer of Zhejiang Geely Holding Limited. Mr. Yin holds a Bachelor degree in English from Wuhan University and Advanced Certificate in Administration of Economy from the Postgraduate Institute of China Academy of Social Science. Mr. Yin has 34 years of experience in Accounting and Finance and held key executive positions in various Chinese and multinational companies in China including Dupont Textile, Dupont Agricultural Chemicals, Brilliance Holding and Shenyang Jinbei Passenger Vehicle Manufacturing Co. Ltd.



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## LETTER FROM G.K. GOH

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**Mr. Liu Jin Liang**, aged 39, is the Vice President of Zhejiang Geely Holding Limited and General Manager of Zhejiang Geely Automobile Sales Co. Ltd., which is 90%-owned by Zhejiang Geely JV. Mr. Liu graduated from the Capital University of Economics and Business, focusing on industrial management. Prior to joining Zhejiang Geely Holding in 1995, Mr. Liu held a number of management positions in several major hotels in China. Mr. Liu has about 10 years experience in the marketing and sales of motor vehicles in China. Mr. Liu is now in charge of all the sales functions of Zhejiang Geely JV in China.

**Mr. Gui Sheng Yue**, aged 42, Mr. Gui has over 20 years of experience in administration and project management. Mr. Gui had also worked with China Resources (Holdings) Company Limited. Mr. Gui holds a Bachelor of Science degree in mechanical engineering from Xian Jiaotong University and a Master degree in business administration from University of San Francisco.

Other than the proposed changes to the board of Directors referred to above, the Offeror does not intend that there will be any material changes to the existing management of the Group following the closing of the Offer. The Offeror intends to continue the employment of the employees of the Group. Given this and that the fact that all of the proposed executive Directors as abovementioned are currently involved in the operations and management of the two associated companies of the Company namely, Zhejiang Geely Automobile Co. Ltd. and/or Shanghai Maple Guorun Automobile Co. Ltd., the Offeror and the Directors consider that the resignation of the six existing executive Directors upon Completion will not have material adverse impact on the operations of the Group.

### **MAINTAINING OF LISTING STATUS OF THE COMPANY**

It is the Offeror's intention to maintain the listing of the Shares on the Stock Exchange after the closing of the Offer. The Directors, the Offeror and the new Directors nominated by the Offeror and to be appointed to the Board have undertaken that following the closing of the Offer, appropriate steps will be taken as soon as possible to ensure that not less than 25% of the Shares will be held by the public.

The Offeror has no intention to transfer the Shares to be acquired under the Offer to any other persons, save for the possible disposal after the closing of the offer to ensure that not less than 25% of the Shares will be held in public hands.

**The Stock Exchange stated that if, at the closing of the Offer, less than 25% of the Shares are held by the public or if the Stock Exchange believes that:**

- **a false market exists or may exist in the trading of the Shares; or**
- **there are too few Shares in public hands to maintain an orderly market,**

**then the Stock Exchange will consider exercising its discretion to suspend trading in the Shares until a sufficient level of public float is attained.**

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## LETTER FROM G.K. GOH

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The Stock Exchange will closely monitor all future acquisitions or disposals of assets by the Company. Pursuant to the Listing Rules, the Stock Exchange has the discretion to require the Company to issue an announcement and a circular to the Shareholders irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of the Company. The Stock Exchange also has the power, pursuant to the Listing Rules, to aggregate a series of acquisitions or disposals of the Company and any such transactions may result in the Company being treated as if it were a new listing applicant and subject to the requirements for new listing applicants set out in the Listing Rules.

### ACCEPTANCE AND SETTLEMENT

#### Procedure for acceptance of the Offer

To accept the Offer, you should complete and sign the Form of Acceptance in accordance with the instructions printed thereon, which instructions form part of the terms of the Offer.

The completed Form of Acceptance should be forwarded together with the relevant share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number or Shares in respect of which you intend to accept the Offer, by post or by hand to the Registrar at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, in an envelope marked "Geely Offer" as soon as practicable after receipt of the Form of Acceptance so as to reach the Registrar but in any event by no later than 4:00 p.m. on Tuesday, 21 June 2005 or such later date as the Offeror may determine and announce with the consent of the Executive. No acknowledgment of receipt of any Form of Acceptance, Share certificate, transfer receipt(s) or other document of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given. Your attention is drawn to the further details regarding the procedures for acceptance set out in Appendix I to this document.

#### Settlement of the Offer

The consideration due to Shareholders who have accepted the Offer, will be paid as soon as possible but in any event within ten days from the date on which duly completed valid Form of Acceptance, the relevant Share certificate(s) and, or transfer receipt(s) and, or any other document(s) of title, and, or any satisfactory indemnity or indemnities required in respect thereof, are received by the Registrar, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, to render acceptance of the Offer complete and valid. Cheques or bank orders for the requisite cash amount will be sent to the Shareholders who have accepted the Offer at their respective registered addresses within ten days from the date on which the relevant documents are received as mentioned above. All such cheques or bank orders will be sent by post at the risk of the persons entitled to them and none of the Offeror, G.K Goh nor the Registrar will be responsible for any loss or delay in transmission.

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## LETTER FROM G.K. GOH

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### TAXATION

Independent Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Offer. It is emphasised that none of the Offeror, the parties acting in concert with the Offeror, G.K. Goh and any of their respective directors accepts responsibility for any taxation effects on, or tax liabilities of, any persons that may result from their acceptance of the Offer.

### ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices, which form part of this document.

### GENERAL INFORMATION

Your attention is also drawn to: (i) the letter from the Board of the Company set out on pages 6 to 9 of this document; (ii) the letter from the Independent Board Committee to the Independent Shareholders set out on pages 18 to 19 of this document; and (iii) the letter of advice from the Joint Independent Financial Advisers to the Independent Board Committee set out on pages 20 to 36 of this document. You should make your decision as to whether to accept or reject the Offer after considering those documents, and based on your judgment in light of the information set out therein. If you have any doubt as to any aspect of the Offer or the contents of this document, you should consult your stockbroker, bank manager, solicitor or other professional advisers, as appropriate.

Yours faithfully,

For and on behalf of

**G. K. Goh Securities (H.K.) Limited**

**Alex Lau**

**Flavia Hung**

*Executive Vice President*

*Senior Vice President*



吉利汽車控股有限公司  
GEELY AUTOMOBILE HOLDINGS LIMITED

*(incorporated in Cayman Islands with limited liability)*

(Stock Code:175)

31 May 2005

*To the Independent Shareholders*

Dear Sir or Madam,

**UNCONDITIONAL MANDATORY GENERAL OFFER BY  
G.K. GOH SECURITIES (H.K.) LIMITED  
ON BEHALF OF  
GEELY GROUP LIMITED  
FOR ALL THE ISSUED SHARES IN  
GEELY AUTOMOBILE HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY  
BENEFICIALLY OWNED OR AGREED TO BE ACQUIRED BY  
GEELY GROUP LIMITED OR  
PARTIES ACTING IN CONCERT WITH IT)**

We refer to the document dated 31 May, 2005 issued by the Company of which this letter forms part. Terms defined in the document shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the terms of the Offer and to advise you as to whether, in our opinion, the terms of the Offer are fair and reasonable and in the interests of the Independent Shareholders as a whole. Tai Fook Capital Limited and BCOM Securities Company Limited have been appointed as the Joint Independent Financial Advisers to advise the Independent Board Committee in respect of the terms of the Offer. Details of the advice of the Joint Independent Financial Advisers and the principal factors taken into consideration in arriving at its recommendations are set out in the letter from the Joint Independent Financial Advisers on pages 20 to 36 of this document.

We also wish to draw your attention to (i) the letter from the Board set out in this document; and (ii) the letter from G.K. Goh set out in, and the additional information set out in the Appendices to, this document.

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account the information contained in this document, the letter from the Board and the letter from the Joint Independent Financial Advisers contained in this document, we consider that the Share Offer Price is not fair and reasonable so far as the Independent Shareholders are concerned, and accordingly advise the Independent Shareholders not to accept the Offer.

Yours faithfully,

**Mr. Lee Cheuk Yin, Dannis**  
*Independent non-executive Director*

**Mr. Song Lin**  
*Independent non-executive Director*



大福融資有限公司  
TAI FOOK CAPITAL LIMITED

Tai Fook Capital Limited  
25th Floor  
New World Tower  
16-18 Queen's Road Central  
Hong Kong



交通證券有限公司  
BCOM SECURITIES COMPANY LIMITED

BCOM Securities Company Limited  
Rooms 201-202  
Far East Consortium Building  
121 Des Voeux Road Central  
Hong Kong

31 May 2005

*To the Independent Board Committee of Geely Automobile Holdings Limited*

Dear Sirs,

**UNCONDITIONAL MANDATORY GENERAL OFFER BY  
G.K. GOH SECURITIES (H.K.) LIMITED  
ON BEHALF OF  
GEELY GROUP LIMITED  
FOR ALL THE ISSUED SHARES IN  
GEELY AUTOMOBILE HOLDINGS LIMITED  
(OTHER THAN THOSE SHARES ALREADY BENEFICIALLY OWNED OR  
AGREED TO BE ACQUIRED BY  
GEELY GROUP LIMITED OR  
PARTIES ACTING IN CONCERT WITH IT)**

**INTRODUCTION**

We refer to our appointment as the joint independent financial advisers to the Independent Board Committee in relation to the Offer, details of which are set out in the composite offer and response document dated 31 May 2005 jointly issued by the Offeror and the Company (the "Document"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Document unless the context requires otherwise.

On 10 May 2005, the Offeror and the Company jointly announced that on 6 May 2005, the Vendors entered into the Share Transfer Agreement with the Offeror pursuant to which the Vendors conditionally agreed to dispose to the Offeror 68 PG Shares, representing their entire interest of 68% of the issued share capital of Proper Glory, which in turn was interested in approximately 60.68% of the existing issued share capital of the Company, for a total cash consideration of HK\$153 million. The Offeror was interested in the remaining 32% interest of the issued share capital of Proper Glory prior to Completion. As announced by the Offeror and the Company on 19 May 2005, completion of the Share Transfer Agreement took place on 19 May 2005 and following Completion, the Offeror and parties acting in concert with it became interested in approximately 60.68% of the existing issued share capital of the Company. Under Rule 26 of the Takeovers Code, the Offeror is obliged to make a mandatory unconditional cash offer for all the Shares not already owned by the Offeror or parties acting in concert with it.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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The Independent Board Committee comprising the two independent non-executive Directors, namely Messrs. Lee Cheuk Yin, Dannis and Song Lin, has been established to advise the Independent Shareholders on the terms of the Offer. The Board currently comprises eight executive Directors and two independent non-executive Directors. As disclosed in the “Letter from the Board” of the Document, Mr. He is one of the Vendors and a salaried executive Director and a director of Proper Glory. Mr. Ku Wai Kwan is the beneficial owner and director of Fortune Door while Mr. Zhou Teng is the beneficial owner and director of Venture Link. Mr. Ku Wai Kwan and Mr. Zhou Teng are also salaried executive Directors and directors of Proper Glory. Mr. Ang Siu Lun, Lawrence, is a salaried executive Director and the Optionholder. Mr. Nan Yang and Mr. Zhang Zhe are salaried executive Directors and salaried directors of the Offeror. Mr. Wong Hing Kwok is a salaried executive Director and a director of Proper Glory. Mr. Xu Xing Yao is a salaried executive Director. Accordingly, the executive Directors are considered not sufficiently independent to participate in formulating a recommendation to the Independent Shareholders so as to avoid any conflict of interests which may arise. In our capacity as the joint independent financial advisers to the Independent Board Committee, our role is to provide the Independent Board Committee with an independent opinion and recommendation as to whether the terms of the Offer are fair and reasonable.

### **BASIS OF OUR OPINION**

In formulating our recommendation, we have relied on the information and facts supplied to us and representations expressed by the Directors and/or management of the Group and have assumed that all such information and facts and any representations made to us or contained in the Document were true, accurate and complete at the time they were made and continue to be so at the date of the Document and during the period up to the close of the Offer. We have been advised by the Directors and/or the management of the Group that all relevant information has been supplied to us and that no material facts have been omitted from the information supplied and representations expressed to us. We have no reason to doubt the completeness, truth or accuracy of the information and facts provided and representations made to us and we are not aware of any facts or circumstances which would render such information provided and representations made to us untrue, inaccurate or misleading.

We consider we have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs of the Group.

We have not considered the tax implications on the Independent Shareholders of their acceptances or non-acceptances of the Offer since this is particular to their own individual circumstances. In particular, the Independent Shareholders who are resident outside Hong Kong or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax position with regard to the Offer and, if in any doubt, should consult their own professional advisers.

**PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion regarding the terms of the Offer, we have considered the following principal factors and reasons:

**I. Background to and terms of the Offer**

On 6 May 2005, the Vendors entered into the Share Transfer Agreement with the Offeror pursuant to which the Vendors conditionally agreed to dispose to the Offeror 68 PG Shares, representing their entire interest of 68% of the issued share capital of Proper Glory, for a total cash consideration of HK\$153 million. Prior to Completion, the Offeror was interested in the remaining 32% interest of the issued share capital of Proper Glory, which in turn was interested in 2,500 million Shares, representing approximately 60.68% of the existing issued share capital of the Company. Completion of the Share Transfer Agreement took place on 19 May 2005 and following Completion, Proper Glory became a wholly owned subsidiary of the Offeror, and the Offeror and parties acting in concert with it became interested in 2,500 million Shares, representing approximately 60.68% of the existing issued share capital of the Company. Under Rule 26 of the Takeovers Code, the Offeror is obliged to make a mandatory unconditional cash offer for all the Shares not already owned by the Offeror or parties acting in concert with it.

As set out in the “Letter from G.K. Goh” of the Document, G.K. Goh is making, on behalf of the Offeror, the Offer on the following basis:

**For each Share ..... HK\$0.09 in cash**

The Offer is unconditional and is not conditional on the attaining of any particular level of acceptance in respect of the Offer. Based on the total consideration of HK\$153 million paid by the Offeror for a 68% interest in Proper Glory, which in turn was interested in 2,500 million Shares, the implied consideration paid by the Offeror for each Share under the Share Transfer Agreement is HK\$0.09. Accordingly, the Share Offer Price is equivalent to the implied price per Share paid by the Offeror under the Share Transfer Agreement. As disclosed in the “Letter from G.K. Goh” of the Document, save for the Share Transfer Agreement, neither the Offeror nor any parties acting in concert with it has dealt in any Shares or any other securities convertible into Shares, including warrants, options or subscription rights, during the six months prior to the date of the Joint Announcement.

As disclosed in the “Letter from G.K. Goh” of the Document, as at the Latest Practicable Date, the Company had 35 million outstanding Options, which had been granted to the Optionholder, and if exercised in full would result in the issue of 35 million Shares (representing approximately 0.84% of the issued share capital of the Company as enlarged by the exercise in full of such outstanding Options). The Offeror has received an irrevocable undertaking given by the Optionholder that he will not exercise the Options and will not accept any offer in relation to the Options. No offer will be made to the Optionholder for the cancellation of the Options. As at the Latest Practicable Date, save for the irrevocable undertaking received from the Optionholder, the Offeror or person acting in concert with it had not received any other irrevocable commitment to accept the Offer.



# LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

As at the Latest Practicable Date, save for the Options referred to above, the Company had no other convertible securities, options, derivatives or warrants outstanding and had not entered into any agreement for the issue of any convertible securities, options, warrants or derivatives of the Company.

Further terms and conditions of the Offer, including the procedure for acceptance, are set out in the “Letter from G.K. Goh” of the Document.

## II. Historical financial performance of the Group

As stated in the “Letter from the Board” of the Document, the Group is principally engaged in the manufacturing and trading of automobile parts and related automobile components in the PRC. In addition, the Group had an approximately 46.8% interest in each of Zhejiang Geely Automobile Co. Ltd. (“Zhejiang Geely JV”) and Shanghai Maple Guorun Automobile Co. Ltd. (“Shanghai Maple JV”), which are principally engaged in the research, development, production, marketing and sales of sedans and related automobile components in the PRC.

The following sets out a summary of the financial results of the Group for each of the three years ended 31 December 2004 as extracted from the relevant annual reports of the Company and a discussion of the financial performance of the Group based on the information in the annual reports:

	<b>Year ended 31 December 2004 (Audited) HK\$'000</b>	<b>Year ended 31 December 2003 (Audited) HK\$'000</b>	<b>Year ended 31 December 2002 (Audited) HK\$'000</b>
Turnover	41,123	39,872	71,820
Loss from operations	(12,730)	(12,577)	(24,532)
Share of results of associates	100,213	68,350	(2,022)
Profit (loss) before taxation and minority interests	90,619	55,620	(111,711)
Profit (loss) after taxation and minority interests	84,394	57,486	(105,981)
Net assets (liabilities)	653,447	569,046	(5,411)

As disclosed in the 2002 annual report of the Company, during the year ended 31 December 2002 (“FY2002”), the Group was principally engaged in information and technology (“IT”) related business, implementation and marketing of software applications and property development and investment. For FY2002, the Group recorded a turnover of approximately HK\$71.8 million, of which approximately HK\$67.9 million was attributable to IT related business and approximately HK\$3.9 million was attributable to property investment. The consolidated net loss of the Company for FY2002 was approximately HK\$106.0 million, which was mainly attributable to: (i) loss from

## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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operations of approximately HK\$24.5 million; (ii) allowance for advance to an associate of approximately HK\$75.0 million; (iii) finance costs of approximately HK\$10.3 million; and (iv) share of results of associates of approximately HK\$(2.0) million. The Group completed the financial restructuring in June 2002 whereby, among others, the Group disposed of its entire property development and investment businesses and some of its IT related businesses. Details of the financial restructuring are set out in the circular of the Company dated 7 June 2002.

During the year ended 31 December 2003 (“FY2003”), the Group expanded its business into automobile manufacturing. Two sino-foreign joint venture companies, namely Zhejiang Geely JV and Shanghai Maple JV, were established to engage in the research, development, production, marketing and sales of sedans and related components in the PRC. Each of Zhejiang Geely JV and Shanghai Maple JV was approximately 46.8% owned by the Group. In December 2003, Zhejiang Fulin Guorun Automobile Parts & Components Co. Ltd. (“Fulin Guorun”), a sino-foreign joint venture company in which the Group held a 51% equity interest, was established to engage in the production and marketing of automobile parts and components in the PRC. For FY2003, the Group’s turnover amounted to approximately HK\$39.9 million, of which approximately HK\$39.5 million was attributable to IT related business and approximately HK\$0.4 million was attributable to the manufacturing and trading of automobile parts and related automobile components. The decrease in total turnover was mainly due to the reduction in the turnover for IT related business. Consolidated net profit of the Company for FY2003 was approximately HK\$57.5 million as compared to a net loss of approximately HK\$106.0 million for FY2002, in spite of a loss from operations of approximately HK\$12.6 million for FY2003. As disclosed in the 2003 annual report of the Company, such profit was mainly attributable to the profit after taxation attributable to the Group from Zhejiang Geely JV during its seven-month operating period and from Shanghai Maple JV during its one-month operating period totaling approximately HK\$68.0 million.

For the year ended 31 December 2004 (“FY2004”), the Group recorded a turnover of approximately HK\$41.1 million, representing an increase of approximately 3.1% as compared to the turnover for FY2003. With the inclusion in the accounts of FY2004 of the full year turnover of Fulin Guorun, which was established by the Group at the end of 2003, the Group’s turnover from the manufacturing and trading of automobile parts and related automobile components increased from approximately HK\$0.4 million for FY2003 to approximately HK\$31.9 million for FY2004. The Group disposed of its IT related business in March 2004 and in the absence of turnover from IT related business in the last 9 months of FY2004, turnover from such business segment decreased from approximately HK\$39.5 million for FY2003 to approximately HK\$9.2 million for FY2004.

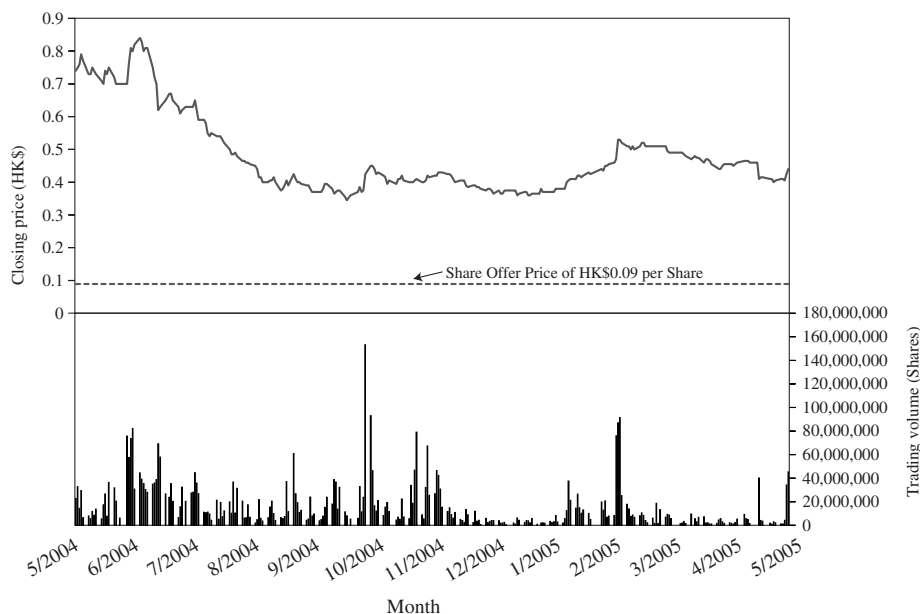
Consolidated net profit of the Company for FY2004 amounted to approximately HK\$84.4 million, representing an increase of approximately 46.8% as compared to that for FY2003. As disclosed in the 2004 annual report of the Company, 2004 was a difficult year for the automobile industry in the PRC, featured by the sharp slow down in vehicle sales since the second quarter of 2004 and the continuous downward pressure on car prices throughout the year. Affected by the continuous pressure on product prices, the Group’s auto parts business operated by Fulin Guorun recorded a small operating loss for FY2004. However, profit contributions from Zhejiang Geely JV and Shanghai Maple JV, which accounted for the bulk of the Group’s earnings, increased significantly for FY2004. Such increase was mainly attributable to the full year profit contributions from the

two associates in FY2004, new profit contributions from a series of acquisitions during 2003-2004 and the healthy natural growth achieved by the two associates in FY2004. This, coupled with the decrease in administrative expenses after the Group's withdrawal from IT related business, accounted for the increase in the consolidated net profit of the Company for FY2004.

### III. Share Offer Price

#### (i) Historical market price and liquidity of the Shares

The following chart shows the closing price and trading volume of the Shares as quoted on the Stock Exchange from 3 May 2004, being the first trading day of the month falling twelve months prior to 6 May 2005 (the last trading day of the Shares immediately prior to the suspension of trading in the Shares from 2:30 p.m. on 6 May 2005 pending the release of the Joint Announcement), to the Latest Practicable Date (both dates inclusive) ("Review Period"):



Source: Bloomberg

As shown in the above chart, during the period from 3 May 2004 to 6 May 2005 (both dates inclusive) (the "Pre-Announcement Period"), the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.84 per Share recorded on 7 June 2004 and HK\$0.345 per Share recorded on 28 September 2004 respectively. The Share Offer Price represents a discount of approximately 89.3% and 73.9% to such highest and lowest closing prices per Share respectively.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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Trading of the Shares was suspended during the period from 2:30 p.m. on 6 May 2005 up to and including 10 May 2005 pending the release of the Joint Announcement. Closing price per Share on 11 May 2005, being the first trading day after resumption of trading in the Shares, was HK\$0.41, which was slightly below the closing price of HK\$0.46 per Share on 6 May 2005. During the period from 11 May 2005 to the Latest Practicable Date (both dates inclusive) (the “Post-Announcement Period”), the highest and lowest closing prices of the Shares as quoted on the Stock Exchange were HK\$0.44 per Share recorded on 27 May 2005 and HK\$0.4 per Share recorded on 19 May 2005 respectively. The Share Offer Price represents a discount of approximately 79.5% and 77.5% to such highest and lowest closing prices per Share respectively.

It should be noted that the Shares were traded at price levels substantially higher than the Share Offer Price at all times during the Review Period.

The Share Offer Price of HK\$0.09 per Share represents:

- (a) a discount of approximately 80.4% to the closing price of HK\$0.46 per Share as quoted on the Stock Exchange on 6 May 2005, being the last trading day of the Shares immediately prior to the suspension of trading in the Shares from 2:30 p.m. on 6 May 2005 pending the release of the Joint Announcement;
- (b) a discount of approximately 80.4% to the average closing price of approximately HK\$0.459 per Share as quoted on the Stock Exchange for the 10 trading days up to and including 6 May 2005;
- (c) a discount of approximately 80.7% to the average closing price of approximately HK\$0.467 per Share as quoted on the Stock Exchange for the 30 trading days up to and including 6 May 2005; and
- (d) a discount of approximately 79.5% to the closing price of HK\$0.44 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

# LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

The following table sets out the trading volume of the Shares during the Review Period:

Month/period	Total trading volume for the month/period <i>(in '000 shares)</i> <i>(approximately)</i>	Average daily trading volume for the month/period <i>(Note 1)</i> <i>(in '000 shares)</i> <i>(approximately)</i>	Percentage of average daily trading volume to total number of Shares in issue as at the Latest Practicable Date <i>(in %)</i> <i>(approximately)</i>	Percentage of average daily trading volume to total number of Shares held by public shareholders as at the Latest Practicable Date <i>(Note 2)</i> <i>(in %)</i> <i>(approximately)</i>
<b>2004</b>				
May	378,042	19,897	0.48	1.23
June	815,097	38,814	0.94	2.40
July	400,064	19,051	0.46	1.18
August	303,918	13,814	0.34	0.85
September	310,126	14,768	0.36	0.91
October	513,532	27,028	0.66	1.67
November	542,912	24,678	0.60	1.52
December	87,169	3,962	0.10	0.24
<b>2005</b>				
January	134,466	6,723	0.16	0.41
February	450,175	26,481	0.64	1.63
March	145,407	6,924	0.17	0.43
April	65,764	3,288	0.08	0.20
May (up to and including 6 May 2005)	20,725	5,181	0.13	0.32
May (from 11 May 2005 to the Latest Practicable Date, both dates inclusive)	139,501	11,625	0.28	0.72

*Source: Bloomberg*

*Notes:*

- Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period which exclude any trading day on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
- Based on 1,620,264,902 Shares held by public shareholders as at the Latest Practicable Date, being the total number of Shares in issue as at the Latest Practicable Date less the number of Shares in which the Offeror and parties acting in concert with it were interested as at the Latest Practicable Date.

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## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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As illustrated in the above table, the average daily trading volume of the Shares in each month during the Pre-Announcement Period ranged from approximately 3,288,000 Shares to approximately 38,814,000 Shares, representing less than 1% of the total number of Shares in issue as at the Latest Practicable Date and a range of approximately 0.20% to approximately 2.40% of the total number of Shares held by public shareholders as at the Latest Practicable Date.

Trading volume of the Shares increased to approximately 39,932,000 Shares on 11 May 2005, the date of publication of the Joint Announcement. However, the average daily trading volume of the Shares during the Post-Announcement Period was low, being approximately 11,625,000 Shares, representing approximately 0.28% of the total number of Shares in issue as at the Latest Practicable Date and approximately 0.72% of the total number of Shares held by the public shareholders as at the Latest Practicable Date.

In view of the above, we consider that the overall liquidity of the Shares was low in the Review Period. As such, Independent Shareholders who intend to dispose of a large number of Shares may not be able to do so without exerting a downward pressure on the price of the Shares. We consider that the Offer provides an alternative exit to such Shareholders to realize their investment in the Shares.

(ii) *Price/earnings multiple*

Based on the consolidated net profit of HK\$84.4 million and the weighted average number of approximately 4,120.3 million Shares in issue during the year ended 31 December 2004, the Group's basic earnings per share for the year ended 31 December 2004 were approximately HK\$0.02 ("FY2004 EPS"). Based on FY2004 EPS and the closing price of the Shares as at the Latest Practicable Date, the Group had a price/earnings multiple of approximately 21.5 times. Based on FY2004 EPS, the Share Offer Price represents a price/earnings multiple of approximately 4.4 times.

We have reviewed the trading multiples of nine companies ("Comparable Companies") that are principally engaged on the manufacture and sale of automobiles/motor vehicles and automotive parts and/or components and whose shares are listed on the Stock Exchange. We note that the Group and its associates are principally engaged in the manufacture and sale of sedans and automobile parts and components. In selecting companies for comparison, we have excluded companies with the major scope of business being the manufacture and sale of large-sized vehicles, multi-purposes vehicles, buses, coaches, diesel engines, car audio equipment, micromotors or non-mechanical automobile parts or components such as tyres or automobile glass products or automobile maintenance equipment business or provision of products and services serving automotive aftermarket, which we consider not to be a valid

## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

comparison with the business of the Group and its associates. The following table summarizes the financial information of the Comparable Companies:

Name of company	Stock code	Principal business of the company, its subsidiaries and/or associates and/or jointly controlled entities <i>(Note 1)</i>	Closing price <i>(Note 2)</i> <i>(HK\$)</i>	Market capitalization <i>(Note 3)</i> <i>(HK\$'million)</i> <i>(approximately)</i>	Price/earnings multiple <i>(Note 4)</i> <i>(times)</i> <i>(approximately)</i>
Denway Motors Limited	203	Manufacturing, assembly and trading of motor vehicles, and manufacturing and trading of automotive equipment and parts in the PRC, and manufacturing and trading of audio equipment in Hong Kong	2.70	20,266.2	9.4
New Focus Auto Tech Holdings Limited <i>(“New Focus”)</i> <i>(Note 5)</i>	360	Manufacturing and sale of electronic and power-related automotive parts and accessories which are for leisure and safety purposes	1.05	420.0	8.8
Brilliance China Automotive Holdings Limited <i>(“Brilliance”)</i>	1114	Manufacture and sale of minibuses, sedans and automotive components in the PRC	1.37	5,025.7	109.7
Compass Pacific Holdings Limited <i>(“Compass”)</i>	1188	Operation of indoor game centres, manufacture and sale of automobile axles in the PRC and investment holding	0.265	502.3	Not applicable <i>(Note 6)</i>
Great Wall Automobile Holding Company Limited <i>(“Great Wall”)</i>	2333	Design, research and development, manufacture and sales, and distribution of sports utility vehicles, pick-up trucks, special vehicles, buses and automobile-related products such as automobile parts and components	2.90	2,738.2	7.2 <i>(Note 7)</i>
Norstar Founders Group Limited <i>(“Norstar”)</i>	2339	Manufacture and sale of automotive spare parts and construction decorative hardware products	1.82	1,774.5	8.4

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Name of company	Stock code	Principal business of the company, its subsidiaries and/or associates and/or jointly controlled entities <i>(Note 1)</i>	Closing price <i>(Note 2)</i> <i>(HK\$)</i>	Market capitalization <i>(Note 3)</i> <i>(HK\$'million)</i> <i>(approximately)</i>	Price/earnings multiple <i>(Note 4)</i> <i>(times)</i> <i>(approximately)</i>
AviChina Industry & Technology Company Limited	2357	Manufacturing, assembly, sales and servicing of automobiles and civilian aircraft	0.58	2,693.3	40.0
Zhejiang Prospect Company Limited	8273	Manufacturing and sale of universal joint and automotive components for automobiles including cardan universal joint, wing bearing universal joint and differential spiders	0.8	61.3	7.0
Jinheng Automotive Safety Technology Holdings Limited	8293	Design, research and development, manufacture and sale of automotive safety airbag systems	1.14	434.3	6.7
<i>Average (excluding Brilliance)</i> <i>(Note 8)</i>					12.5
Company	175	Manufacturing and trading of automobile parts and related automobile components, research and development, production, marketing and sales of sedans and related accessories or components as well as the provision of related after-sales services in the PRC	0.46 <i>(based on the closing price per Share as at 6 May 2005)</i>	1,895.3	22.5
			<b>0.09</b> <b>(based on the Share Offer Price)</b>	<b>370.8</b>	<b>4.4</b>

Source: <http://www.hkex.com.hk>

*Notes:*

1. Based on the latest published annual report of the company on or prior to 6 May 2005.
2. Represents the closing price per share as quoted on the Stock Exchange on 6 May 2005.



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3. Based on the closing price per share as quoted on the Stock Exchange on 6 May 2005 and the number of shares in issue as at 6 May 2005 according to the information available on the official website of the Stock Exchange.
4. Unless otherwise stated, the price/earnings multiple is calculated based on the closing price per share as quoted on the Stock Exchange on 6 May 2005 and the basic earnings per share calculated by dividing consolidated net profit by weighted average number of shares during the financial year as disclosed in the latest published annual report of the company on or prior to 6 May 2005. Figures in RMB are translated into HK\$ at the rate of RMB1.06=HK\$1.
5. The calculation of basic earnings per share of New Focus is based on the combined profit attributable to shareholders for the year ended 31 December 2004 as disclosed in the annual report of New Focus for the year ended 31 December 2004 and 400,000,000 shares in issue, being the number of shares in issue immediately after its initial public offering in February 2005.
6. According to the annual report of Compass for the year ended 31 December 2004, the date to which the latest published audited financial statements of Compass were made up, Compass recorded a consolidated loss attributable to shareholders of approximately HK\$40.9 million. Accordingly, no price/earnings multiple has been calculated.
7. According to the annual report of Great Wall for the year ended 31 December 2004, the date to which the latest published audited financial statements of Great Wall were made up, as at 31 December 2004, Great Wall had 472,100,000 shares (comprising 341,000,000 domestic shares and 131,100,000 H shares) in issue. The calculation of basic earnings per share of Great Wall is based on the weighted average of 944,200,000 shares in issue during the year, as adjusted to reflect the capitalization issue of 472,100,000 shares on 1 February 2005.
8. The price/earnings multiple of Brilliance, being approximately 109.7 times, is much higher than that of the other Comparable Companies and accordingly has been excluded when calculating the average of the price/earnings multiples of the Comparable Companies.

We have reviewed the annual report of Brilliance for the year ended 31 December 2004 and note that the high price/earnings multiple of Brilliance in 2004 can be attributable to the low level of consolidated profit attributable to shareholders in 2004 (being approximately RMB48.6 million, as compared to the consolidated profit attributable to shareholders of approximately RMB936.4 million in 2003). Such decrease in profit is partly due to the recognition of an impairment loss on intangible assets of RMB300 million in 2004.

As shown in the above table, the price/earnings multiples of the Comparable Companies (excluding Brilliance which had a price/earnings multiple of approximately 109.7 times) range from approximately 6.7 times to approximately 40.0 times. The average price/earnings multiple of the Comparable Companies (excluding Brilliance) was approximately 12.5 times. The price/earnings multiple implied by the Share Offer Price is less than the price/earnings multiples of the Comparable Companies. As such, we consider that the valuation of the Company based on the Share Offer Price, with reference to the price/earnings multiple, is unfavourable when compared to the average price/earnings multiple of the Comparable Companies so far as the Independent Shareholders are concerned.

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### (iii) Net asset value

In considering the reasonableness of the Share Offer Price, we have also made reference to the premium/discount of the Share Offer Price over/to the consolidated net asset value of the Company. According to the 2004 annual report of the Company, the consolidated audited net asset value of the Company as at 31 December 2004 was approximately HK\$653.4 million, equivalent to approximately HK\$0.16 per Share (“2004 NAV per Share”) based on the 4,120,264,902 Shares in issue as at 31 December 2004. The closing price per Share as at the Latest Practicable Date represents a premium of approximately 177.4% over the 2004 NAV per Share while the Share Offer Price represents a discount of approximately 43.3% to the 2004 NAV per Share.

The following table sets out the comparison of the discount/premium of the closing price to/over the consolidated net asset value per share of the Comparable Companies with the Company:

Name of company	Stock code	(Discount)/Premium of closing price to/over net asset value per share (Note 1) (approximately)
Denway Motors Limited	203	187.1%
New Focus (Note 2)	360	124.8%
Brilliance	1114	(22.6%)
Compass	1188	371.8%
Great Wall (Note 3)	2333	(7.6%)
Norstar	2339	58.5%
AviChina Industry & Technology Company Limited	2357	(44.0%)
Zhejiang Prospect Company Limited	8273	(35.5%)
Jinheng Automotive Safety Technology Holdings Limited	8293	145.8%
Average		86.5%

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Company	175	Based on the closing price per Share as at 6 May 2005: 190.0%; <b>based on the Share Offer Price: (43.3%)</b>
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Source: <http://www.hkex.com.hk>

*Notes:*

1. Unless otherwise stated, the discount or premium of closing price to/over net asset value per share is calculated based on the closing price per share as quoted on the Stock Exchange on 6 May 2005 and the consolidated net asset value per share of the company calculated by dividing consolidated net asset value by the total number of issued shares as at the balance sheet date as disclosed in the latest published annual or interim report of the company on or prior to 6 May 2005. Figures in RMB are translated into HK\$ at the rate of RMB1.06=HK\$1.
2. The calculation of combined net asset value per share of New Focus is based on the combined net assets of New Focus as at 31 December 2004 as disclosed in its annual report for the year ended 31 December 2004 adjusted for the estimated net proceeds from the share offer as disclosed in its prospectus dated 17 February 2005 divided by 400,000,000 shares in issue, being the number of shares in issue immediately after its initial public offering in February 2005.
3. According to the annual report of Great Wall for the year ended 31 December 2004, the date to which the latest published audited financial statements of Great Wall were made up, as at 31 December 2004, Great Wall had 472,100,000 shares (comprising 341,000,000 domestic shares and 131,100,000 H shares) in issue. The calculation of consolidated net asset value per share of Great Wall is based on the 944,200,000 shares in issue, as adjusted to reflect the capitalization issue of 472,100,000 shares on 1 February 2005.

As shown in the above table, based on the closing price per share of the Comparable Companies on 6 May 2005, the shares of the Comparable Companies were traded at a level between a discount of approximately 44.0% to and a premium of approximately 371.8% over the consolidated net asset value per share. On average, the closing price per share of the Comparable Companies on 6 May 2005 represents a premium of approximately 86.5% to the consolidated net asset value per share (based on the latest published annual or interim report on or prior to 6 May 2005). The Share Offer Price represents a discount of approximately 43.3% to the 2004 NAV per Share, which falls at the low end of the range of the Comparable Companies. Accordingly, we consider that the Share Offer Price, with reference to the consolidated net asset value per share of the Company, is unfavourable so far as the Independent Shareholders are concerned.

*(iv) Dividend yield*

The Company did not declare any dividend for each of the two years ended 31 December 2003. Dividend per share for the year ended 31 December 2004 was HK\$0.01.

## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

The following table sets out the dividend yield of the Comparable Companies based on the closing price per share as at 6 May 2005 and the dividend per share for the last financial year as disclosed in the latest published annual report of the company on or prior to 6 May 2005:

Name of company	Stock code	Dividend yield ( <i>Note 1</i> ) (approximately)
Denway Motors Limited	203	3.0%
New Focus	360	<i>Note 2</i>
Brilliance	1114	0.7%
Compass	1188	Nil
Great Wall	2333	3.3%
Norstar	2339	1.3% ( <i>Note 3</i> )
AviChina Industry & Technology Company Limited	2357	Nil
Zhejiang Prospect Company Limited	8273	Nil
Jinheng Automotive Safety Technology Holdings Limited	8293	4.8%
Company	175	Based on the closing price per Share as at 6 May 2005: 2.2%; <b>based on the Share Offer Price:</b> <b>11.1%</b>

Source: <http://www.hkex.com.hk>

## LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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*Notes:*

1. In calculating dividend yield, where applicable, figures in RMB are translated into HK\$ at the rate of RMB1.06=HK\$1.
2. As disclosed in the annual report of New Focus for the year ended 31 December 2004, dividends for the year ended 31 December 2004 were approximately RMB25.2 million. Such dividends represent dividends paid by New Focus's subsidiaries to its then shareholders prior to the initial public offering of the shares of New Focus. Accordingly, no dividend yield has been calculated in respect of the dividend for the year ended 31 December 2004 as the calculation of dividend per share for the year ended 31 December 2004 is considered not meaningful.

In addition, according to the annual report of New Focus for the year ended 31 December 2004, the directors of New Focus have recommended the payment of a special dividend of HK\$0.078 per share for 2005. Based on the special dividend of HK\$0.078 per share and the closing price of the shares of New Focus of HK\$1.05 per share, the dividend yield is approximately 7.4%.

3. As disclosed in the annual report of Norstar for the year ended 31 March 2004, dividends for the year ended 31 December 2004 were approximately RMB48.4 million, comprising dividend of approximately RMB24.7 million paid by Norstar's subsidiary to its then shareholder prior to the initial public offering of the shares of Norstar ("pre-IPO dividend") and proposed final dividend to shareholders of Norstar of HK\$0.024 per ordinary share. The calculation of the dividend yield of Norstar of approximately 1.3% above is based on the proposed 2004 final dividend of HK\$0.024 per ordinary share without taking into account the pre-IPO dividend.

The dividend per share of the Company represents a dividend yield of approximately 2.2% based on the closing price per Share as at 6 May 2005 and approximately 11.1% based on the Share Offer Price. The dividend yield of the Comparable Companies ranges from nil to approximately 4.8% (based on the closing price per share as at 6 May 2005 and the dividend per share for the last financial year as disclosed in the latest published annual report of the company on or prior to 6 May 2005).

As the dividend yield of approximately 11.1% based on the Share Offer Price is higher than the dividend yield of the Comparable Companies, the Shares may be an attractive investment for investors. However, Independent Shareholders should note that the abovementioned dividend yield of the Company is based on the dividend payment for the year ended 31 December 2004 and the Company did not declare any dividend in each of the two years ended 31 December 2003. Accordingly, there is no assurance that future dividends will be paid at a level similar to that for the year ended 31 December 2004.

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# LETTER FROM THE JOINT INDEPENDENT FINANCIAL ADVISERS

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## RECOMMENDATION

Having considered the above principal factors and reasons, in particular:

- the significantly improved results of the Group for the two years ended 31 December 2004 since the Group's investment in the automobile businesses;
- the Share Offer Price represents a significant discount to the closing prices of the Shares during the Review Period; and
- the price/earnings multiple, net asset value and dividend yield analyses as mentioned above;

we consider that the Share Offer Price is not fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders not to accept the Offer.

However, Independent Shareholders should note that the liquidity of the Shares has been low during the Review Period. Given this, Independent Shareholders may find it difficult to dispose of the Shares in the market without exerting downward pressure on the price of the Shares. Accordingly, we consider that the Offer provides an opportunity and alternative exit for the Independent Shareholders to realize their investment in the Shares in cash if they so wish.

Independent Shareholders should also note the paragraphs headed "Intentions of the Offeror regarding the Group" as set out in the "Letter from G.K. Goh" of the Document in considering selling or retaining their Shares. Independent Shareholders who want to realize their investment in the Shares should monitor the Share price performance during the Offer period. Should the trading price of the Share exceed the Share Offer Price during the Offer period, and the sale proceeds, net of all transaction costs, exceeds the amount receivable from the Offer, Independent Shareholders should consider selling their Shares in the market instead of accepting the Offer. Independent Shareholders who are attracted by the future prospects of the Group and are confident on the Offeror and parties acting in concert with it should consider retaining some or all of their Shares.

Yours faithfully,

For and on behalf of

**Tai Fook Capital Limited**

**Derek C.O. Chan**

*Deputy Managing Director*

**Heidi Cheng**

*Director*

Yours faithfully,

For and on behalf of

**BCOM Securities Company Limited**

**Steve Wong**

*Director*

**1. FURTHER PROCEDURES FOR ACCEPTANCE**

- (a) If the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Share(s) is/are in the name of a nominee company or some name other than your own, and you wish to accept the Offer (either in full or in respect of part of your holding(s) of Shares), you must either:
- (i) lodge your Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities as may be required by the Offeror and G.K. Goh in respect thereof) with the nominee company, or other nominee, with instructions authorising it to accept the Offer, on your behalf and requesting it to deliver the form(s) of acceptance and transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities as may be required by the Offeror and G.K. Goh in respect thereof) to the Registrar; or
  - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar and send the form(s) of acceptance and transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities as may be required by the Offeror and G.K. Goh in respect thereof) to the Registrar; or
  - (iii) if your Shares have been lodged with your broker/custodian bank through CCASS, instruct your broker/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited, which is one business day before the Closing Date on which acceptance of the Offer must be received by the Registrar. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your broker/custodian bank for the timing of processing your instructions, and submit your instructions to your broker/custodian bank as required by them.

If your Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System not later than one business day before the Closing Date on which acceptance of the Offer must be received by the Registrar.

- (b) If you have lodged (a) transfer(s) of Shares for registration in your name and have not yet received your Share certificate(s) and you wish to accept the Offer, you should nevertheless complete the form(s) of acceptance and transfer and deliver it to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to the Offeror and/or G.K. Goh or their respective agent(s) or such other person or persons as the Offeror may direct for the purpose to collect from the Company or the Registrar, on your behalf, the relevant Share certificate(s) when issued and to deliver such certificate(s) to the Registrar and to authorise and instruct the Registrar to hold such certificate(s), subject to the terms of the Offer, as if it was/they were delivered to the Registrar with the form(s) of acceptance and transfer.

- (c) If the Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in all respects satisfactory to the Offerer (and/or any indemnity or indemnities as may be required by the Offeror and G.K. Goh in respect thereof) in respect of your Share(s) is/are not readily available and/or is/are lost and you wish to accept the Offer, the form(s) of acceptance and transfer should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any indemnity or indemnities as may be required by the Offeror and G.K. Goh in respect thereof) or that it/they is/are not readily available. If you find such document(s) or if it/they become(s) available subsequently, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in all respects satisfactory to the Offeror (and/or any indemnity or indemnities as may be required by the Offeror and G.K. Goh in respect thereof) should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar for a form of letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (d) An acceptance may not be counted towards fulfilling an acceptance condition unless:
- (i) the form(s) of acceptance(s) and transfer together with the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title in all respects satisfactory to the Offeror (and/or any indemnity or indemnities as may be required by the Offeror and G.K. Goh in respect thereof) has/have been received by the Registrar on or before 4:00 p.m. on Tuesday, 21 June 2005 and the Registrar has recorded that the form(s) of acceptance and transfer and any relevant documents required have been so received; and
- (ii) the form(s) of acceptance and transfer is/are duly completed and is/are:
- accompanied by Shares certificate(s) and/or transfer receipt(s) and/or other document(s) of title in all respect satisfactory to the Offeror (and/or any indemnity or indemnities as may be required by the Offeror and G.K. Goh in respect thereof) in respect of the Shares and, if those certificates are not in your name, such other documents (e.g. a duly stamped transfer of the Shares in blank or in your favour executed by the registered holder) in order to establish your right to become the registered holder of the Shares; and
  - from a registered holder or his personal representative(s) (but only up to the amount of the registered holding and only to the extent that the acceptance related to Shares which are not taken into account under another sub-paragraph of this paragraph (ii)); or
  - certified by the Registrar or the Stock Exchange; and

if the form(s) of acceptance and transfer is/are executed by a person other than the registered holder, appropriate evidence of authority (e.g. grant of probate or certified copy of a power of attorney) must be produced.



- (e) No acknowledgment of receipt for any form(s) of acceptance and transfer, Share certificate(s), transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities as may be required by the Offeror and G.K. Goh in respect thereof) will be given.
- (f) The address of the Registrar is G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

## **2. ACCEPTANCE PERIOD, REVISIONS AND EXTENSIONS**

- (a) Unless the Offer has previously been extended or revised, the Offer will expire at 4:00 p.m. on the Closing Date.
- (b) If the Offer is extended or revised, the announcement of such extension or revision will state the next closing date. If the Offer is extended or revised, it will remain open for acceptance for a period of not less than 14 days from the posting of the written notification of the extension or revision to the Shareholders and, unless previously extended or revised, shall be closed on the subsequent closing date. The benefit of any revision of the Offer will be available to any Independent Shareholder who has previously accepted the Offer. The execution by or on behalf of any Independent Shareholder or who has previously accepted the Offer, as the case may be, of any form(s) of acceptance and transfer shall be deemed to constitute acceptance of the revised Offer, unless such holder becomes entitled to withdraw his or her acceptance and duly does so.
- (c) If the Closing Date is extended, any reference in this document and in the accompanying form(s) of acceptance and transfer to the Closing Date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offer as so extended.

## **3. ANNOUNCEMENTS**

- (a) By 6:00 p.m. on the Closing Date, or such later time as the Executive may agree, the Offeror shall inform the Executive and the Stock Exchange of its decision in relation to the revision, extension or expiry of the Offer. The Offeror shall publish an announcement on the Stock Exchange's website by 7:00 p.m. on the Closing Date stating whether the Offer has been revised, extended or has expired. The announcement shall also be republished in accordance with the requirements set out in paragraph (c) below on the next business day thereafter and shall state the total number of Shares:
  - for which acceptance of the Offer have been received;
  - held, controlled or directed by the Offeror or persons acting in concert with it before the Offer period; and
  - acquired or agreed to be acquired during the Offer period by the Offeror or any parties acting in concert with it.

The announcement shall include the details of voting rights, rights over shares, derivatives and arrangements as required by Rule 3.5(c), (d) and (f) of the Takeovers Code. The announcement shall also specify the percentages of the relevant classes of share capital, and the percentages of voting rights, represented by these numbers.

- (b) In computing the number of Shares represented by acceptances, there may be included or excluded, for announcement purposes, acceptances which are not in all respects in order or are subject to verification. The number of these acceptances will be separately stated.
- (c) As required under the Takeovers Code and the Listing Rules, all announcements in relation to the Offer in respect of which the Executive and (if applicable) the Stock Exchange have confirmed that they have no further comments, must be published as a paid announcement in at least one leading English language newspaper and one leading Chinese language newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong.

#### **4. RIGHTS OF WITHDRAWAL**

- (a) Acceptance to the Offer tendered by Shareholders shall be irrevocable and cannot be withdrawn, except in the circumstances set out in (b) below.
- (b) If the Offeror is unable to comply with the requirements of making announcements under Rule 19 of the Takeovers Code relating to the Offer, the Executive may require that the accepting Shareholders be granted a right of withdrawal on terms acceptable to the Executive until the requirements set out in that paragraph are met.

#### **5. GENERAL**

- (a) All remittances in settlement of Shares tendered under the Offer, communications, notices, form(s) of acceptance and transfer, Share certificate(s), transfer receipt(s) and other documents of title (and/or any satisfactory indemnity or indemnities as may be required by the Offeror and G.K. Goh in respect thereof) to be delivered by or sent to or from the Shareholders will be delivered by or sent to or from them, or their designated agents, at their own risk, and none of the Offeror, the parties acting in concert with the Offeror, G.K. Goh, the Registrar or any of their directors or agents accepts any liability for any loss or any other liabilities whatsoever which may arise as a result thereof.
- (b) The provisions set out in the accompanying form(s) of acceptance and transfer form part of the terms of the Offer.
- (c) The accidental omission to despatch this document and, or the form(s) of acceptance and transfer or any of them to any person to whom either of the Offer are made will not invalidate the Offer in any way. The deliberate omission, if any, to despatch this document and, or the form(s) of acceptance and transfer will not invalidate the Offer in any way.

- (d) If, in the course of the Offer, the Offeror revises the terms of the Offer, all Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms. The revised Offer must be kept open for at least 14 days following the date on which the revised Offer document is posted.
- (e) Settlement of the consideration to which any Shareholder is entitled under the Offer will be implemented in full in accordance with the terms of the Offer without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder.
- (f) Due execution of the form(s) of acceptance and transfer in respect of the Offer will constitute an authority to each of the Offeror, G.K. Goh, any director of the Offeror or any director of G.K. Goh, or their respective agents or such other person or persons as the Offeror may direct for the purpose, to complete and execute any document on behalf of the any person in connection therewith and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, or such person or persons as the Offeror may direct, the Shares which are the subject of such acceptance.
- (g) Acceptance of the Offer by any person(s) will be deemed to constitute a warranty by such person(s) to the Offeror and G.K Goh that the Shares acquired pursuant to the Offer are sold by such person(s) free from all rights of pre-emption, options, liens, claims, equities, charges, encumbrances and any other third party rights or interests of any nature whatsoever and together with all rights, benefits and entitlements attaching and accruing thereto as of the date of this document and thereafter, including the right to receive all dividends, rights and distributions declared, paid or made on or after the date of this document.
- (h) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee that the number of Shares in respect of which it is indicated in the relevant form(s) of acceptance and transfer is/are aggregate number of Shares held by such nominee for such beneficial owners who are accepting the Offer.
- (i) Seller's ad valorem stamp duty at the rate of 0.1% of the amount payable in respect of relevant acceptances will be deducted from the amount payable to the Independent Shareholders who accept the Offer. The Offeror will bear its own portion of buyer's ad valorem stamp duty at the rate of 0.1% of the amount payable in respect of relevant acceptances and will be responsible to account to the Stamp Office for all the stamp duty payable in respect of the sale and purchase of the Shares.

- (j) The making of the Offer to certain persons resident in jurisdictions outside Hong Kong may be affected by the laws of the relevant jurisdictions. If you are a citizen or resident or national of a jurisdiction outside Hong Kong, you should inform yourself about and observe any applicable legal requirements. It is your responsibility if you wish to accept the Offer to satisfy yourself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes due in respect of such jurisdiction. The Offeror, the parties acting in concert with the Offeror, G.K. Goh and their directors and any person acting on their behalf shall be entitled to be fully indemnified and held harmless by you for any such transfer or other taxes as are required to be paid. Acceptance of the Offer by you will constitute a warranty that you are permitted under all applicable laws to receive and accept the Offer, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.

## 1. FINANCIAL SUMMARY

Deloitte Touche Tohmatsu were the auditors of the Company for each of the three years ended 31 December 2004 and none of the auditors' report for the three years ended 31 December 2004 were qualified. The following is a summary of the financial results of the Group for the three years ended 31 December 2004 as extracted from its annual reports:

	Year ended 31 December		
	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	41,123	39,872	71,820
Profit (loss) before taxation	90,619	55,620	(111,711)
Income tax expense	(6,696)	(237)	(52)
Profit (loss) before minority interests	83,923	55,383	(111,763)
Minority interests	471	2,103	5,782
Net profit (loss) for the year	<u>84,394</u>	<u>57,486</u>	<u>(105,981)</u>
Dividends	41,203	–	–
Dividend per Share (HK\$)	0.01	–	–
Basic earnings per Share (HK Cents)	<u>2.0</u>	<u>1.6</u>	<u>(4.3)</u>

There were neither extraordinary nor exceptional items recorded for the three years ended 31 December 2004.

## 2. AUDITED FINANCIAL STATEMENTS

The audited consolidated financial statements of the Group for the year ended 31 December 2004, as extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2004 are set out below.

**Consolidated Income Statement**

	<i>Note</i>	<b>Year ended 31 December</b>	
		<b>2004</b>	<b>2003</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4	41,123	39,872
Cost of sales		<u>(38,468)</u>	<u>(31,900)</u>
Gross profit		2,655	7,972
Other operating income		91	644
Distribution and selling expenses		(284)	(1,165)
Administrative expenses		(15,192)	(19,271)
Other operating expenses		<u>–</u>	<u>(757)</u>
Loss from operations	6	(12,730)	(12,577)
Finance costs	7	(53)	(153)
Share of results of associates		100,213	68,350
Gain on disposal of subsidiaries		<u>3,189</u>	<u>–</u>
Profit before taxation		90,619	55,620
Income tax expense	8	<u>(6,696)</u>	<u>(237)</u>
Profit before minority interests		83,923	55,383
Minority interests		<u>471</u>	<u>2,103</u>
Net profit for the year		<u><u>84,394</u></u>	<u><u>57,486</u></u>
Dividend			
Proposed final dividend of HK\$0.01 per share	9	<u><u>41,203</u></u>	<u><u>–</u></u>
Earnings per share			
– basic	10	<u><u>HK 2.0 cents</u></u>	<u><u>HK 1.6 cents</u></u>
– diluted	10	<u><u>HK 2.0 cents</u></u>	<u><u>N/A</u></u>

## Consolidated Balance Sheet

	Note	As at 31 December	
		2004 HK\$'000	2003 HK\$'000
Non-current assets			
Property, plant and equipment	12	5,831	8,589
Interests in associates	14	651,750	558,836
		<u>657,581</u>	<u>567,425</u>
Current assets			
Inventories	15	8,815	7,358
Trade and other receivables	16	11,921	11,114
Amounts due from minority shareholders	17	–	1,130
Amount due from an associate	18	338	338
Amounts due from related companies	19	613	–
Bank balances and cash		1,499	15,823
		<u>23,186</u>	<u>35,763</u>
Current liabilities			
Trade and other payables	20	12,575	10,535
Amounts due to related companies	19	2,252	–
Advance from a minority shareholder	21	5,027	8,010
Bank borrowings	22	–	2,537
		<u>19,854</u>	<u>21,082</u>
Net current assets		<u>3,332</u>	<u>14,681</u>
		<u>660,913</u>	<u>582,106</u>
Capital and reserves			
Share capital	23	82,405	82,405
Reserves		571,042	486,641
		<u>653,447</u>	<u>569,046</u>
Minority interests		<u>4,466</u>	<u>2,389</u>
Non-current liabilities			
Advance from ultimate holding company	25	3,000	–
Advances from minority shareholders	26	–	9,646
Bank borrowings	22	–	1,025
		<u>3,000</u>	<u>10,671</u>
		<u>660,913</u>	<u>582,106</u>

**Balance Sheet**

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2004</b>	<b>2003</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	12	110	149
Interests in subsidiaries	13	493,911	497,055
		<u>494,021</u>	<u>497,204</u>
Current assets			
Other receivables		183	206
Amount due from an associate	18	338	338
Amount due from a related company	19	186	–
Bank balances and cash		396	6,515
		<u>1,103</u>	<u>7,059</u>
Current liabilities			
Other payables		1,172	1,681
Advance from a minority shareholder	21	–	5,000
		<u>1,172</u>	<u>6,681</u>
Net current (liabilities) assets		<u>(69)</u>	<u>378</u>
		<u>493,952</u>	<u>497,582</u>
Capital and reserves			
Share capital	23	82,405	82,405
Reserves	24	408,547	415,177
		<u>490,952</u>	<u>497,582</u>
Non-current liability			
Advance from ultimate holding company	25	3,000	–
		<u>493,952</u>	<u>497,582</u>



**Consolidated Statement of Changes in Equity**

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated (losses) profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>					
At 1st January, 2003	66,805	33,772	(7)	(105,981)	(5,411)
Exchange difference on translation of operations outside Hong Kong and net gain not recognised in the consolidated income statement	–	–	1,179	–	1,179
Issue of subscription shares	15,600	515,400	–	–	531,000
Share issue expenses	–	(15,208)	–	–	(15,208)
Net profit for the year	–	–	–	57,486	57,486
At 31st December, 2003	82,405	533,964	1,172	(48,495)	569,046
Realised upon disposal of subsidiaries	–	–	7	–	7
Net profit for the year	–	–	–	84,394	84,394
At 31st December, 2004	<u>82,405</u>	<u>533,964</u>	<u>1,179</u>	<u>35,899</u>	<u>653,447</u>

At 31st December, 2004, the accumulated profits of the Group included profits of approximately HK\$161,630,000 (2003: HK\$68,113,000) retained by its associates.

**Consolidated Cash Flow Statement**

	<i>Note</i>	<b>Year ended 31 December</b>	
		<b>2004</b>	<b>2003</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>			
Loss from operations		(12,730)	(12,577)
Adjustments for:			
Depreciation		711	1,233
Interest income		(6)	(37)
Loss on disposal of property, plant and equipment		7	42
		<hr/>	<hr/>
Operating cash flow before			
movements in working capital		(12,018)	(11,339)
Increase in inventories		(10,063)	(142)
Increase in trade and other receivables		(13,575)	(3,015)
Decrease (increase) in amounts			
due from minority shareholders		1,130	(1,130)
Increase in amounts from related companies		(852)	-
Increase in trade and other payables		14,290	878
Increase in amount due from an associate		-	(338)
		<hr/>	<hr/>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		<b>(21,088)</b>	<b>(15,086)</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(2,628)	(3,977)
Disposal of subsidiaries (net of cash and cash			
equivalents disposed of)	27	(1,839)	-
Investments in associates		(565)	(489,544)
Interest received		6	37
		<hr/>	<hr/>

	<i>Note</i>	<b>Year ended 31 December</b>	
		<b>2004</b>	<b>2003</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH USED IN INVESTING ACTIVITIES		(5,026)	(493,484)
FINANCING ACTIVITIES			
Interest paid		(53)	(153)
Repayment of bank borrowings		(33)	(1,283)
Advances from minority shareholders		3,978	3,818
Advance from (repayment to) ultimate holding company		3,000	(3,000)
New bank borrowings raised		2,636	2,500
Advance from (repayment to) related companies		2,262	(419)
Capital contributions from minority shareholders of subsidiaries		–	4,615
Net proceeds from issue of shares		–	515,792
NET CASH FROM FINANCING ACTIVITIES		11,790	521,870
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(14,324)	13,300
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		15,823	2,523
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER			
Bank balances and cash		1,499	15,823

**Notes to the Financial Statements**

*For the year ended 31st December, 2004*

**1. GENERAL**

The Company was incorporated in the Cayman Islands as an exempted limited company. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 13.

In the opinion of the directors, the Company's ultimate holding company is Proper Glory Holdings Inc. ("Proper Glory"), a company incorporated in the British Virgin Islands.

**2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS**

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRS(s)") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

**Basis of consolidation**

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

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

**Negative goodwill**

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

**Interests in associates**

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

**Revenue recognition**

Income from sales of automobile parts and components is recognised when the products are delivered and title has been passed.

Income from sales of software and hardware is recognised when the merchandise is delivered.

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

**Property, plant and equipment**

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment losses.

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

Buildings	2% to 5%
Plant and machinery	10 to 33.3%
Leasehold improvements	20% to 33.3%
Furniture and fixtures, office equipment and motor vehicles	20% to 33.3%

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

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

**Impairment**

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

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

### **Foreign currencies**

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

On consolidation, the assets and liabilities of the Group's operations in currencies other than Hong Kong dollars are translated at the exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rate for the year. Exchange differences arising are dealt with in the reserves. Such translation differences are recognised as income or as expenses in the year which the operation is disposed of.

### **Taxation**

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

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

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### **Retirement benefit costs**

Payments to the Group's Mandatory Provident Fund Scheme ("MPF" Scheme) and the state-managed retirement benefit scheme are charged as expenses as they fall due.

**Operating leases**

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

**4. TURNOVER**

Turnover represents the aggregate of the sale revenue arising from sales of automobile parts and components and from information and technology related business and is analysed as follows:

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of automobile parts and components	31,903	372
Sales revenue from information and technology related businesses	9,220	39,500
	<u>41,123</u>	<u>39,872</u>

**5. BUSINESS AND GEOGRAPHICAL SEGMENTS****Business segments**

For management purposes, the Group is organised into two operating divisions – (i) manufacturing and trading of automobile and related automobile components, (ii) information technology. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Automobile – manufacturing and trading of automobile parts and related automobile components

Information technology – information technology and related business

Following the disposal of the entire 51% interest in Deep Treasure Investments Limited (“Deep Treasure”) and its subsidiaries, the operations of information technology was discontinued on 30th March, 2004, details of which are set out in note 32(a).

Segment information about the continuing and discontinuing businesses is presented below.

For the year ended 31st December, 2004

	<b>Continuing operations</b>	<b>Discontinuing operations</b>	
	<b>Automobile</b>	<b>Information technology</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>REVENUE</b>			
External sales	31,903	9,220	41,123
<b>RESULT</b>			
Segment result	(256)	(787)	(1,043)
Unallocated corporate expenses			(11,687)
Loss from operations			(12,730)
Finance costs	–	(53)	(53)
Share of results of associates	100,167	46	100,213
Gain on disposal of subsidiaries	–	3,189	3,189
Profit before taxation			90,619
Income tax expense	(6,696)	–	(6,696)
Profit before minority interests			83,923
Minority interests	121	350	471
Net profit for the year			84,394
<b>BALANCE SHEET</b>			
	<b>Continuing operations</b>	<b>Discontinuing operations</b>	
	<b>Automobile</b>	<b>Information technology</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	680,767	–	680,767
<b>LIABILITIES</b>			
Segment liabilities	(18,674)	–	(18,674)
Unallocated liabilities			(4,180)
			(22,854)



## OTHER INFORMATION

	<u>Continuing operations</u>	<u>Discontinuing operations</u>	
	<b>Automobile</b>	<b>Information technology</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital additions	2,568	60	2,628
Depreciation	528	183	711
Loss on disposal of property, plant and equipment	<u>7</u>	<u>-</u>	<u>7</u>

*For the year ended 31st December, 2003*

	<u>Continuing operations</u>	<u>Discontinuing operations</u>	
	<b>Automobile</b>	<b>Information technology</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>TURNOVER</b>			
External sales	<u>372</u>	<u>39,500</u>	<u>39,872</u>
<b>RESULT</b>			
Segment result	<u>(69)</u>	<u>(2,012)</u>	(2,081)
Unallocated corporate expenses			<u>(10,496)</u>
Loss from operations			(12,577)
Finance costs	(4)	(149)	(153)
Share of results of associates	68,358	(8)	<u>68,350</u>
Profit before taxation			55,620
Income tax expense			<u>(237)</u>
Profit before minority interests			55,383
Minority interests			<u>2,103</u>
Net profit for the year			<u>57,486</u>

## BALANCE SHEET

	<u>Continuing operations</u>	<u>Discontinuing operations</u>	
	Automobile <i>HK\$'000</i>	Information technology <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	579,108	24,080	<u>603,188</u>
<b>LIABILITIES</b>			
Segment liabilities	(7,770)	(20,421)	(28,191)
Unallocated liabilities			<u>(3,562)</u>
			<u>(31,753)</u>

## OTHER INFORMATION

	<u>Continuing operations</u>	<u>Discontinuing operations</u>	
	Automobile <i>HK\$'000</i>	Information technology <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	3,758	219	3,977
Depreciation	101	1,132	1,233
Loss on disposal of property, plant and equipment	<u>2</u>	<u>40</u>	<u>42</u>

**Geographical segments**

The Group's activities and operations are based in the People's Republic of China (the "PRC"), including Hong Kong. Accordingly, a geographical analysis is not presented.

**6. LOSS FROM OPERATIONS**

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Loss from operations has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments	8,454	8,343
Retirement benefits scheme contributions	<u>527</u>	<u>206</u>
Total staff costs	8,981	8,549
Auditors' remuneration	332	483
Depreciation	711	1,233
Loss on disposal of property, plant and equipment	7	42
Interest income from bank deposits	<u>(6)</u>	<u>(37)</u>

## 7. FINANCE COSTS

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on		
Bank borrowings		
wholly repayable		
– within five years	53	73
– after five years	–	76
Others	–	4
	<u>53</u>	<u>153</u>

## 8. INCOME TAX EXPENSE

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of taxation attributable to associates	<u>6,696</u>	<u>237</u>

Hong Kong Profits Tax has not been provided for the year as the companies within the Group had no estimated assessable profits in Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiary and associates are entitled to an exemption from PRC income tax for the two years starting from their first profit-making year, followed by a 50% reduction for the next three years.

The charge for the year ended 31st December, 2004 represent enterprise income tax provided by the associates and the subsidiaries of the associates with operations in the PRC at the applicable rates on their assessable profits.

The tax charge for the year can be reconciled to the profit before taxation per the income statement as follows:

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	<u>90,619</u>	<u>55,620</u>
Tax at the domestic income tax rate of 33%	29,904	18,355
Tax effect of expenses not deductible in determining taxable profit	4,136	473
Tax effect of tax losses not recognised	82	6,109
Tax effect of share of results of associates	(26,374)	(11,041)
Tax effect of income not taxable in determining taxable profit	(1,052)	(13)
Effect of different tax rates in other jurisdictions	–	(2,267)
Effect of tax exemption granted to PRC subsidiaries	–	(11,379)
Tax expense for the year	<u>6,696</u>	<u>237</u>

There is no significant unprovided deferred taxation during the year or at the balance sheet date.

**9. DIVIDEND**

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Final, proposed – HK\$0.01 per share (2003: Nil)	<u>41,203</u>	<u>–</u>

Final dividend of HK\$0.01 per share has been proposed by the directors and is subject to approval by the shareholders in the annual general meeting.

**10. EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the net profit for the year of approximately HK\$84,394,000 (2003: HK\$57,486,000) and on 4,120,264,902 (2003: weighted average number of 3,614,785,000) shares in issue during the year.

Diluted earnings per share for the year ended 31st December, 2004 does not assume the exercise of share options as the exercise price of the share options were higher than the average market price.

No diluted earnings per share for the year ended 31st December, 2003 had been presented as there was no potential ordinary share in existence during that year.

**11. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS****Directors' emoluments**

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Fees		
Executive directors	260	229
Independent non-executive directors	<u>243</u>	<u>240</u>
	<u>503</u>	<u>469</u>
Other emoluments		
Executive directors		
– Salaries and other emoluments	3,514	2,590
– Retirement benefits scheme contributions	<u>59</u>	<u>48</u>
	<u>3,573</u>	<u>2,638</u>
	<u>4,076</u>	<u>3,107</u>

Emoluments of the directors are within the following bands:

	Number of directors	
	2004	2003
Executive directors		
Nil to HK\$1,000,000	7	8
HK\$1,000,001 to HK\$1,500,000	1	–
	<u>8</u>	<u>8</u>
Independent non-executive directors		
Nil to HK\$1,000,000	<u>3</u>	<u>2</u>

No director waived any emoluments during the year ended 31st December, 2004 and 31st December, 2003.

The emoluments of every director for the years ended 31st December, 2004 and 2003 are set out below:

Name of director	2004			Total HK\$	2003 Total HK\$
	Fee HK\$	Salary HK\$	Employer's contribution to provident fund HK\$		
Ang Siu Lun, Lawrence	–	1,110,000	11,000	1,121,000	–
He Xuechu	–	780,000	12,000	792,000	852,000
Ku Wai Kwan	–	650,000	12,000	662,000	712,000
Zhou Teng	–	650,000	12,000	662,000	712,000
Wong Hing Kwok	–	325,000	12,000	337,000	362,000
Xu Xing Yao	240,000	–	–	240,000	197,000
Zhang Zhe	10,000	–	–	10,000	3,000
Nan Yang	10,000	–	–	10,000	1,000
Lee Cheuk Yin, Dannis	120,000	–	–	120,000	120,000
Liu Ming Hui	120,000	–	–	120,000	120,000
Song Lin	2,000	–	–	2,000	–
Dong Xing Quan (resigned on 30th June, 2003)	–	–	–	–	28,000

**Highest paid individuals' emoluments**

Details of the emoluments payable to the five highest paid individuals (including directors and other employees) are as follows:

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Basic salaries and allowances	3,580	2,787
Retirement benefits scheme contributions	59	48
	<u>3,639</u>	<u>2,835</u>

The emoluments paid to the five highest paid individuals included four (2003: four) executive directors of the Company, details of whose emoluments have been included above. An analysis of five highest paid individuals by number of individuals and emolument range is as follows:

	<b>Number of individuals</b>	
	<b>2004</b>	<b>2003</b>
Nil – HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	1	–
	<u>5</u>	<u>5</u>

No emolument of the five highest paid individuals was incurred as inducement to join or upon joining the Group or as compensation for loss of office during the year ended 31st December, 2004 (2003: Nil).

## 12. PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures, office equipment and motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>					
<b>COST</b>					
At 1st January, 2004	2,698	3,596	597	4,820	11,711
Additions	–	2,089	–	539	2,628
Disposals	–	–	–	(8)	(8)
Disposal of subsidiaries	(2,698)	–	(521)	(4,631)	(7,850)
At 31st December, 2004	–	5,685	76	720	6,481
<b>DEPRECIATION</b>					
At 1st January, 2004	279	34	61	2,748	3,122
Charge for the year	14	410	27	260	711
Eliminated on disposals	–	–	–	(1)	(1)
Eliminated on disposal of subsidiaries	(293)	–	(32)	(2,857)	(3,182)
At 31st December, 2004	–	444	56	150	650
<b>NET BOOK VALUES</b>					
At 31st December, 2004	–	5,241	20	570	5,831
At 31st December, 2003	2,419	3,562	536	2,072	8,589

	Leasehold improvements <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>			
<b>COST</b>			
At 1st January, 2004	76	159	235
Additions	–	56	56
At 31st December, 2004	76	215	291
<b>DEPRECIATION</b>			
At 1st January, 2004	29	57	86
Charge for the year	27	68	95
At 31st December, 2004	56	125	181
<b>NET BOOK VALUES</b>			
At 31st December, 2004	20	90	110
At 31st December, 2003	47	102	149

The buildings were mortgaged as collateral for the Group's banking facilities for the year ended 31st December, 2003 and were disposed of due to the disposal of subsidiaries during the year.

### 13. INTERESTS IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	1	1
Advances to subsidiaries	493,910	497,054
	<u>493,911</u>	<u>497,055</u>

Advances to subsidiaries are unsecured and interest-free. In the opinion of the directors, the amounts will not be repayable within the next twelve months from the balance sheet date and are therefore shown in the balance sheet as non-current.

Particulars of the subsidiaries at 31st December, 2004 are set out below:

Name of company	Place of incorporation/ registration and operations	Issued and fully paid share/ registered capital	Percentage of equity interest held		Principal activities
			Directly	Indirectly	
Centurion Industries Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Value Century Group Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Geely International Limited	Hong Kong	HK\$2	100%	–	Inactive
Zhejiang Fulin Guorun Automobile Components Co., Ltd.*	PRC	USD1,209,200	–	51%	Research, production, marketing and sales of automobile parts and related components

\* *The Company's subsidiary in the PRC is sino-foreign equity joint venture established for a period of 30 years expiring in 2033.*

None of the subsidiaries had issued any debt securities during the year or at the end of the year.



## 14. INTERESTS IN ASSOCIATES

	<b>THE COMPANY</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	651,750	559,213
Less: Negative goodwill	—	(377)
	<u>651,750</u>	<u>558,836</u>

The negative goodwill was released upon disposal of the subsidiaries during the year.

As at 31st December, 2004, the Group had interests in the following associates:

Name of company	Place of registration and operations	Paid-up capital	Percentage of registered capital attributable to the Group	Principal activities
Zhejiang Geely Automobile Company Limited (Formerly known as Zhejiang Geely Guorun Automobile Company Limited) ("Zhejiang Geely")*	PRC	USD82,803,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
Shanghai Maple Guorun Automobile Co. Ltd. ("Shanghai Maple")*	PRC	USD51,697,000	46.8%	Research, development, production, marketing and sales of sedans and related automobile components in the PRC
Zhejiang Mybo Automobile Sales Co. Ltd.	PRC	RMB10,000,000	42.1%	Marketing and sales of sedans in the PRC
Zhejiang Geely Automobile Sales Co. Ltd.	PRC	RMB15,000,000	42.1%	Marketing and sales of sedans in the PRC
Zhejiang Haoqing Automobile Manufacturing Company Limited	PRC	RMB530,000,000	42.1%	Production and sales of sedans in the PRC
Taizhou Geely Automobile Sales Co. Ltd.	PRC	RMB2,000,000	37.9%	Marketing and sales of sedans in the PRC
Zhejiang Geely Automobile Research Institute Limited	PRC	RMB30,000,000	42.1%	Research and development of sedans and related automobile components in the PRC

Name of company	Place of registration and operations	Paid-up capital	Percentage of registered capital attributable to the Group	Principal activities
Ningbo Geely Engine Research Institute Limited	PRC	RMB10,000,000	42.1%	Research and development of automobile engines in the PRC
Shanghai Maple Automobile Sales Co. Ltd.	PRC	RMB6,000,000	42.1%	Marketing and sales of sedans in the PRC

\* *These associates are sino-foreign equity joint ventures established in the PRC for a period of 30 years.*

The following details have been compiled from the audited consolidated management accounts of the Group's significant associates prepared in accounting principles generally accepted in Hong Kong.

### Results for the year

	Shanghai Maple		Zhejiang Geely	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>503,390</u>	<u>34,972</u>	<u>1,807,626</u>	<u>997,032</u>
Profit after taxation	<u>16,122</u>	<u>1,370</u>	<u>183,602</u>	<u>143,987</u>
Profit after taxation attributable to the Group	<u>7,545</u>	<u>641</u>	<u>85,925</u>	<u>67,386</u>

### Financial position

	Shanghai Maple		Zhejiang Geely	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	458,683	305,408	1,650,846	750,204
Current assets	345,675	215,958	2,163,546	784,082
Current liabilities	(349,035)	(25,236)	(2,289,739)	(327,935)
Non-current liabilities	(34,278)	(92,121)	(553,070)	(417,457)
Net assets	<u>421,045</u>	<u>404,009</u>	<u>971,583</u>	<u>788,894</u>
Net assets attributable to the Group	<u>197,049</u>	<u>189,076</u>	<u>454,701</u>	<u>369,202</u>

**15. INVENTORIES**

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At cost:		
Raw materials	3,466	2,770
Work in progress	468	4,588
Finished goods	4,881	–
	<u>8,815</u>	<u>7,358</u>

**16. TRADE AND OTHER RECEIVABLES**

The Group has a policy of allowing a credit period from 30 days to 90 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK\$11,420,000 (2003: HK\$5,612,000).

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

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	7,874	4,480
61 – 90 days	2,948	170
Over 90 days	598	962
	<u>11,420</u>	<u>5,612</u>

The trade receivables comprise:

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
	Trade receivables from associates	11,219
Trade receivables from group companies of an associate	201	–
Outside customers	–	5,612
	<u>11,420</u>	<u>5,612</u>

**17. AMOUNTS DUE FROM MINORITY SHAREHOLDERS**

The amounts due from minority shareholders of the Group were unsecured, interest-free and were fully settled during the year.

**18. AMOUNT DUE FROM AN ASSOCIATE**

The amount due from an associate of the Group and the Company is unsecured, interest-free and repayable on demand.

**19. AMOUNTS DUE FROM/TO RELATED COMPANIES**

The amounts due from/to related companies of the Group and the Company are unsecured, interest-free and repayable on demand.

The amounts due from related companies of the Group represent an amount of approximately HK\$427,000 (2003: Nil) due from a group company of a shareholder of the ultimate holding company and an amount of approximately HK\$186,000 (2003: Nil) due from a shareholder of the ultimate holding company.

The amounts due to related companies of the Group represent an amount of approximately HK\$452,000 (2003: Nil) due to a group company of an associate and an amount of approximately HK\$1,800,000 (2003: Nil) due to a group company of the minority shareholder of a subsidiary.

The amount due from a related company of the Company represents an amount due from a shareholder of the ultimate holding company.

**20. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables of approximately HK\$11,143,000 (2003: HK\$5,273,000).

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

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	7,763	3,826
61 – 90 days	832	254
Over 90 days	2,548	1,193
	11,143	5,273
	11,143	5,273

**21. ADVANCE FROM A MINORITY SHAREHOLDER**

The advance from a minority shareholder of the Group is unsecured, interest-free and repayable on demand.

At 31st December, 2003, an advance from a minority shareholder of the Group and the Company of HK\$5,000,000 was unsecured, interest-free and was fully settled as part of the consideration on disposal of the subsidiaries during the year.

## 22. BANK BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Long-term bank loans, secured	–	1,025
Short-term bank loans, secured	–	183
Short-term bank loans, unsecured	–	2,354
	<u>–</u>	<u>3,562</u>

The maturity of the above borrowings is as follows:

Not exceeding one year	–	2,537
More than one year, but not exceeding two years	–	182
More than two years, but not exceeding five years	–	548
Over five years	–	295
	<u>–</u>	<u>3,562</u>
Less: Amount due within one year shown under current liabilities	–	(2,537)
	<u>–</u>	<u>1,025</u>

## 23. SHARE CAPITAL

	Number of shares	Nominal value HK\$'000
Authorised:		
Ordinary shares of HK\$0.02 each		
– Balance at 1st January, 2003 and 31st December, 2003	5,000,000,000	100,000
– Increase in authorised share capital ( <i>note (iii)</i> )	<u>3,000,000,000</u>	<u>60,000</u>
– Balance at 31st December, 2004	<u>8,000,000,000</u>	<u>160,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.02 each		
– Balance at 1st January, 2003	3,340,264,902	66,805
– Share subscription ( <i>note (i)</i> )	100,000,000	2,000
– Share subscription ( <i>note (ii)</i> )	<u>680,000,000</u>	<u>13,600</u>
– Balance at 31st December, 2003 and 31st December, 2004	<u>4,120,264,902</u>	<u>82,405</u>

*Notes:*

- (i) On 18th March, 2003, Proper Glory entered into an agreement to place out 100,000,000 ordinary shares of the Company to independent third parties at HK\$0.55 per share. On the same date, Proper Glory entered into a subscription agreement with the Company to subscribe for 100,000,000 new ordinary shares of HK\$0.02 each of the Company, at a price of HK\$0.55 per share (“Subscription”). The Subscription price of HK\$0.55 per share represented a discount of approximately 4.68% to the average closing price of HK\$0.577 per share as quoted on the Stock Exchange for the last ten trading days up to and including 17th March, 2003.

The Subscription was completed in March 2003. The net proceeds from the Subscription pursuant to the subscription agreement of approximately HK\$53,421,000 were used as to approximately HK\$47,599,000 to satisfy the funding requirement in respect of the investment in a joint venture company with Zhejiang Geely Holding Group Limited and the remaining balance of HK\$5,822,000 as general working capital of the Group.

- (ii) On 17th September, 2003, Proper Glory entered into an another agreement to place out 680,000,000 ordinary shares of the Company to independent investors at HK\$0.7 per share. On the same date, Proper Glory entered into a subscription agreement with the Company to subscribe for 680,000,000 new ordinary shares of HK\$0.02 each of the Company, at a price of HK\$0.7 per share (“Second subscription”). The Second subscription price of HK\$0.7 per share represented a discount of approximately 7.16% to the average closing price of HK\$0.754 per share as quoted on the Stock Exchange for the last 10 trading days up to and including 16th September, 2003.

The Second subscription was completed in September 2003. The net proceeds of approximately HK\$442,872,000 were used for expansion of the investment in Zhejiang Geely and in Shanghai Maple and approximately HK\$19,499,000 as general working capital of the Group.

Such shares issued during the year ended 31st December, 2003 rank pari passu with the then existing shares in all respects.

- (iii) A resolution was passed in the Annual General Meeting on 18th May, 2004 to increase the authorised capital of the Company from HK\$100,000,000 to HK\$160,000,000 by the addition thereto of HK\$60,000,000 divided into 3,000,000,000 shares of HK\$0.02 each and rank pari passu with all existing shares.

There was no other movement in the share capital during the year ended 31st December 2004.

**24. RESERVES**

	<b>Share premium</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>THE COMPANY</b>			
At 1st January, 2003	33,772	(108,290)	(74,518)
Issue of subscription shares	515,400	–	515,400
Share issue expenses	(15,208)	–	(15,208)
Net loss for the year	–	(10,497)	(10,497)
	<hr/>	<hr/>	<hr/>
At 31st December, 2003	533,964	(118,787)	415,177
Net loss for the year	–	(6,630)	(6,630)
	<hr/>	<hr/>	<hr/>
At 31st December, 2004	<u>533,964</u>	<u>(125,417)</u>	<u>408,547</u>

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business. At 31st December, 2004, the directors are of the opinion that the reserves of the Company available for distribution is approximately HK\$408,547,000 (2003: HK\$415,177,000).

**25. ADVANCE FROM ULTIMATE HOLDING COMPANY**

The advance from ultimate holding company of the Group and the Company is unsecured, interest-free and has no fixed term of repayment. The amount will not be repayable within the next twelve months from the balance sheet date and is therefore shown in the balance sheet as non-current.

**26. ADVANCES FROM MINORITY SHAREHOLDERS**

The advances from minority shareholders of the Group were unsecured, interest-free and were fully settled during the year.

## 27. DISPOSAL OF SUBSIDIARIES

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
NET ASSETS DISPOSED OF:		
Property, plant and equipment	4,668	–
Interests in associates	1,168	–
Inventories	8,606	–
Trade and other receivables	12,768	–
Amount due from a related company	239	–
Bank balances and cash	2,339	–
Bank borrowings	(6,165)	–
Trade and other payables	(12,250)	–
Amounts due to minority shareholders	(11,607)	–
Amounts due to related companies	(10)	–
Minority interests	2,548	–
	<u>2,304</u>	<u>–</u>
Net assets disposed of	2,304	–
Realisation of translation reserve	7	–
Gain on disposal of subsidiaries	3,189	–
	<u>5,500</u>	<u>–</u>
Consideration	5,500	–
Total satisfied by:		
Cash	500	–
Amount due to a minority shareholder	5,000	–
	<u>5,500</u>	<u>–</u>
Net cash outflow from disposal of subsidiaries is as follows:		
Cash consideration received	500	–
Bank balances and cash disposed of	(2,339)	–
	<u>(1,839)</u>	<u>–</u>
Net cash outflow from disposal of subsidiaries	(1,839)	–

The subsidiaries disposed of during the year ended 31st December, 2004 contributed approximately HK\$9,220,000 to the Group's turnover and loss from operations of approximately HK\$794,000.

## 28. CAPITAL COMMITMENTS

At 31st December, 2004, the Group and the Company did not have any capital commitments (2003: Nil).



**29. OPERATING LEASE ARRANGEMENT****As lessee**

Minimum lease payments under operating lease of the Group recognised in the income statement during the year in respect of:

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Premises	<u>1,490</u>	<u>1,036</u>

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

	<b>THE GROUP</b>		<b>THE COMPANY</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,171	1,034	719	1,022
In the second to fifth years inclusive	<u>904</u>	<u>629</u>	<u>-</u>	<u>629</u>
	<u>2,075</u>	<u>1,663</u>	<u>719</u>	<u>1,651</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are fixed for an average of two years.

**30. RETIREMENT BENEFITS SCHEME**

The Group participates in MPF Scheme established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the scheme, which is matched by the employee. Both the employer's and the employees' contributions are subject to a maximum of monthly earnings of HK\$20,000 per employee.

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiary is required to contribute 9% to 30% of the employee's basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group with respect of the retirement benefit scheme is to make the specified contributions.

For the year ended 31st December, 2004, the aggregate employer's contributions made by the Group and charged to the income statement are approximately HK\$527,000 (2003: HK\$206,000).

### 31. SHARE OPTION SCHEME

The directors and employees of the Company and its subsidiaries are entitled to participate in share option scheme detailed as follows:

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 31st May, 2002, a share option scheme (the "Scheme") was adopted by the Company.

The Scheme was adopted for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All directors, full-time employees and any other persons who, in the sole discretion of the board of directors, have contributed or will contribute to the Group are eligible to participate in the Scheme.

The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

Shares which may be issued upon exercise of all options to be granted under the Scheme or any other share option schemes adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption.

Unless approved by shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme or any other share option schemes adopted by the Company in any twelve month period must not exceed 1% of the issued share capital of the Company.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than 10 years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within 5 business days from the date of offer, the offer is delivered to that participant and the amount payable on acceptance of options is HK\$1.00.

The subscription price for the shares under the Scheme shall be a price determined by the directors, but not less than the highest of (i) the closing price of shares as stated on the Stock Exchange on the date of the offer grant; (ii) the average closing price of the shares as stated on the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

No options may be granted under the Scheme after the date of the tenth anniversary of its adoption.

The following table discloses details of the Company's share options under the Scheme held by a director and movements in such holdings during the year ended 31st December, 2004:

Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding at 1.1.2004	Granted during the year	Cancelled during the year	Outstanding at 31.12.2004
23rd February, 2004	23.2.2004 – 22.2.2009	0.95	–	35,000,000	–	35,000,000

No options were exercised by the director to subscribe for shares in the Company during the year.

No options were granted to employees other than the director under the Scheme since its adoption.

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

### 32. CONNECTED AND RELATED PARTY TRANSACTIONS

- (a) In accordance with an agreement entered into between the Company, South China Industries Limited ("SCI") and Proper Glory on 22nd April, 2002 (the "Subscription Agreement") completed on 27th June, 2002 ("Completion Date"), SCI granted a put option to the Company to dispose of its entire 51% equity interest in Deep Treasure and its subsidiaries to Fook Cheung Development Limited ("Fook Cheung") which was exercisable at an exercise price of HK\$5,500,000 within 549 days from the Completion Date (extended to 733 days as agreed between the Company and SCI on 18th December, 2003). Such put option was exercised on 30th March, 2004.

Part of the sale proceeds in the sum of HK\$5,000,000 generated from the disposal was used to set off in full against the remaining balance of HK\$5,000,000 of a shareholder's loan with a principal sum of HK\$9,600,000 owing by the Group to SCI. The remaining sale proceeds of HK\$500,000 was utilised as additional working capital of the Company.

- (b) Pursuant to the management agreement entered into by the Company with SCI on 22nd April, 2002 ("Management Agreement"), SCI is required to provide the Group with management services for those subsidiaries engaged in information and technology related businesses for a term of six years from the Completion Date. Under the Management Agreement, the Group is required to pay a management fee in arrears in the sum of HK\$2,000,000 for the first 549 days after the Completion Date (extended to 733 days as agreed between the Company and SCI on 18th December, 2003) and thereafter to be increased annually at the rate equivalent to the increase in the Composite Consumer Price Index of the 12-month period plus an increase equivalent to 0.5% of the increase in the turnover over such 12-month period.

For the year ended 31st December, 2004, management fee of HK\$335,000 (2003: HK\$1,330,000) was paid to SCI.

Under the Management Agreement, SCI shall unconditionally and irrevocably undertake with the Group for the provision of working capital to the Group's subsidiaries that are engaged in the information and technology related businesses and be solely responsible for their operating losses for a period of 549 days from the Completion Date (extended to 733 days as agreed between the Company and SCI on 18th December, 2003).

For the period commencing from the expiration of 549 days from the Completion Date and ending on the date of termination of 549 days from the Management Agreement, if requested by SCI, the Company shall provide or procure the provision of funding support by way of loan to these subsidiaries provided that the amount of funding support payable during each of the following periods shall not exceed the following amounts (before adjustments of extension from 549 days to 733 days):

<b>Period</b> (No. of days after Completion Date)	<b>Amount</b> <i>HK\$'000</i>
550 to 914	8,000
915 to 1,279	10,000
1,280 to 1,644	12,000
1,645 to 2,009	14,000
2,010	16,000

There are no predetermined terms of such loans to the subsidiaries except that the Company has undertaken not to call for repayment of such loans during the term of the Management Agreement. It is the intention of SCI that it would only make request for funding support when the subsidiaries require financial support.

The Management Agreement was terminated on 30th March, 2004 upon disposal of the related subsidiaries to Fook Cheung.

In addition to the above, the Group also entered into significant transactions with related parties during the year.

(1) Significant transactions with related parties are summarised below:

<b>Name of related party</b>	<b>Nature of transactions/balances</b>	<b>Notes</b>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
South China Industries Limited	Management fee charged by a minority shareholder of a subsidiary	(i)	335	1,330
Zhejiang Geely Automobile Company Limited	Sales of automobile parts and components to an associate Advance to an associate	(ii) (iii)	3,001 338	– –
Zhejiang Haoqing Automobile Manufacturing Company Limited	Sales of automobile parts and components to a subsidiary of an associate	(ii)	19,993	–
Zhejiang Geely Automobile Parts & Components Purchasing Company Limited	Sales of automobile parts and components to a related company	(ii)	7,383	–
Geely Group Zhejiang Motorcycle Company Limited	Advance to a related company	(iii)	427	–
Zhejiang Geely Holding Group Company Limited	Advance to a related company	(iii)	186	–

Name of related party	Nature of transactions/balances	Notes	2004	2003
			HK\$'000	HK\$'000
Zhejiang Fulin Automobile Parts & Components Company Limited	Advance from a minority shareholder of a subsidiary	(iii)	5,027	–
Zhejiang Guo Mei Renovation Company Limited	Rental expense and rental expense payable to a related company	(ii)	452	–
Taizhou Luqiao Mei Tian Motorcycle Company Limited	Advance from a related company	(iii)	1,800	–
Proper Glory	Advance from the ultimate holding company	(iii)	3,000	–

*Notes:*

- (i) These transactions were carried out on terms determined and agreed by both parties.
- (ii) The prices were determined with reference to the then prevailing market prices and the price charged to third parties.
- (iii) The advances are unsecured, non-interest bearing and have no fixed repayment terms.
- (2) Details of the balances with related companies at the balance sheet date are set out in notes 17, 18, 19, 21, 25 and 26.

**3. INDEBTEDNESS**

The statement of indebtedness of the Group as at 31 March 2005, which was prepared by the Directors, is set out below.

At the close of business on 31 March 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document of which this statement forms part, the Group had an amount due to its ultimate holding company of approximately HK\$6,000,000, which was unsecured, interest free and had no fixed terms of repayment.

Save as set out in the preceding paragraph and apart from intra-group liabilities and normal trade and other payables, none of the companies of the Group had, as at the close of business on 31 March 2005, any outstanding mortgages, charges, debentures, loan capital and overdrafts, or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances credits or any guarantees or other material contingent liabilities.

**4. MATERIAL CHANGE**

The Directors confirm that there is no material change in the financial or trading position or prospects of the Group since 31 December 2004, the date to which the latest audited consolidated financial statements of the Group were made up and up to the Latest Practicable Date.

## 1. RESPONSIBILITY STATEMENT

The information in this document relating to the Group has been supplied by the Company. All Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the Offeror or parties acting in concert with it) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

The information in this document relating to the Offeror, the terms and conditions of the Offer and the Offeror's intentions regarding the Company have been supplied by the Offeror. The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this document (other than that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

## 2. SHARE CAPITAL OF THE COMPANY

### (a) Authorised and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

*Authorised:*

<u>8,000,000,000</u>	ordinary shares of HK\$0.02 each	<u>HK\$160,000,000</u>
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*Issued and fully paid up:*

<u>4,120,264,902</u>	ordinary shares of HK\$0.02 each	<u>HK\$82,405,000</u>
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No Shares have been issued since 31 December 2004, being the end of the last audited financial year of the Company and up to the Latest Practicable Date. All the issued Shares rank pari passu in all respects including as to dividends, voting rights and capital.

As at the Latest Practicable Date, the Company has 35 million outstanding Options, which was granted to the Optionholder. The exercise period of the Options is from 23 February 2004 to 22 February 2009 and the exercise price is at HK\$0.95. Save for the Options, the Company has no other convertible securities, options, derivatives or warrants outstanding and has not entered into any agreement for the issue of any convertible securities, options, warrants or derivatives of the Company.

### (b) Listing

The Shares are listed and traded on the Stock Exchange. No part of the issued share capital of the Company is listed or dealt in, nor is any listing of or permission to deal in the Shares being or proposed to be sought on, any other stock exchange.

### 3. CORPORATE INFORMATION OF THE COMPANY

The Company was incorporated in Cayman Islands as an exempted limited company under the Companies Law on 5 June 1996. Its registered office is at P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies and principal place of business is at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.

### 4. DISCLOSURE OF INTERESTS

#### (a) Directors' and Chief Executives' Interests and Short Positions in the Securities of the Company and its Associated Corporations

As at the Latest Practicable Date, the interests and short positions of the Directors in the securities of the Company and its associated corporations, within the meaning of Part XV of the SFO, which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, including interests and short positions which they were deemed or taken to have under such provisions of the SFO, or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange are as follows:

(1) *Long position – share options granted by the Company under the employee share option scheme*

Name of director	Capacity	Underlying number of shares in the Company	Shareholding percentage (%)
Mr. Ang Siu Lun, Lawrence	Beneficial owner	35,000,000	0.85

(2) *Short position*

None of the directors, chief executives nor their associates had any interest on the short position in any shares or underlying shares of the Company or any of its associated corporations as at the Latest Practicable Date.



**(b) Substantial Shareholders**

Save as disclosed below, as at the Latest Practicable Date, the Company had not been notified of any other person (other than the Directors or the chief executive of the Company) who had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

*Long position in Shares*

Name	Capacity	Number of shares		Shareholding percentage (%)
		Direct interest	Deemed interest	
Proper Glory (Note (a))	Beneficial owner	2,500,000,000	–	60.68
Geely Group Limited (Note (b))	Corporate interest	–	2,500,000,000	60.68
Mr. Li (Note (b))	Corporate interest	–	2,500,000,000	60.68
Deutsche Bank Aktiengesellschaft	Beneficial owner	223,370,000	–	5.42

*Note (a):* Proper Glory is a private company incorporated in the British Virgin Islands and is wholly owned by Geely Group Limited, the Offeror.

*Note (b):* Geely Group Limited is a private company incorporated in the British Virgin Island and is wholly owned by Mr. Li. Geely Group Limited is the 100% holding company of Proper Glory and accordingly is deemed to be interested in the 2,500,000,000 Shares held by Proper Glory.

**(c) Shares held by the Offeror**

As at the Latest Practicable Date, the Offeror together with parties acting in concert with it was beneficially interested in 2,500,000,000 Shares, representing approximately 60.08% of the total issued share capital of the Company.

Saved as disclosed in this sub-paragraph (c), there are no other securities of the Company being held by the Offeror, its directors or parties acting in concert with it as at the Latest Practicable Date.

**(d) Interests in the Offeror**

As at the Latest Practicable Date, neither the Company nor any of the Directors owned or controlled any shares, options, convertible securities, derivatives or subscription rights in respect of shares of the Offeror.

**(e) Other interests**

Save as disclosed herein, as at the Latest Practicable Date,

- (i) none of the Company's subsidiaries or any pension fund of the Company or subsidiary of the Company had any interest in the securities in the Company;
- (ii) none of the advisers of the Company as specified in class (2) of the definition of "Associate" under the Takeovers Code or any of the experts named under the section headed "Qualifications" in this Appendix had any interest in the securities in the Company;
- (iii) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of "Associate" under the Takeovers Code had any interest in the securities of the Company;
- (iv) no person who had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with any party acting in concert with it had any interest in any securities of the Company;
- (v) no shareholding in the Company is managed on a discretionary basis by fund managers connected with Company; and
- (vi) there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Offeror or an associate of the Offeror or any party acting in concert with it and any other person, or between the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) or (4) of the definition of "Associate" under the Takeovers Code and any other person.

**5. DEALINGS IN SECURITIES OF THE COMPANY**

Save for the Share Transfer Agreement:

- (a) neither the Offeror nor any party acting in concert with it dealt for value in any securities of the Company during the Relevant Period;
- (b) none of the directors of the Offeror dealt for value in any securities of the Company during the Relevant Period;
- (c) neither the Company nor any of its Directors dealt for value in the securities of the Offeror or the Company during the Relevant Period;

- (d) none of the subsidiaries of the Company, any pension funds of the Company or any of its subsidiaries, or any of the advisers of the Company (as specified in class (2) of the definition of “Associate” in the Takeovers Code, but excluding principal traders) had dealt for value in any securities in the Company during the Relevant Period;
- (e) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “Associate” under the Takeovers Code dealt for value in any securities in the Company during the Relevant Period; and
- (f) no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with any persons acting in concert with it dealt for value in any securities in the Company during the Relevant Period.

## 6. MARKET PRICES

The table below shows the closing prices of the Shares quoted on the Stock Exchange on the last trading day of each of the six calendar months preceding the date of the first announcement published in relation to the Offer on 11 January 2005:

Date	Closing Price <i>HK\$</i>
30 July 2004	0.48
31 August 2004	0.41
30 September 2004	0.36
29 October 2004	0.405
30 November 2004	0.405
31 December 2004	0.365

During the six-month period preceding 11 January 2005, being the date of the first announcement published in relation to the Offer, and up to the Latest Practicable Date, the highest and lowest closing prices of the Shares quoted on the Stock Exchange were HK\$0.59 per Share on 12 July 2004 and HK\$0.345 per Share on 28 September 2004 respectively.

## 7. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 December 2004, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the business of the Company.

## 8. MATERIAL CONTRACTS

Other than contracts in the ordinary course of business, save for a subscription agreement dated 17 September 2003 entered into between the Company and Proper Glory in respect of the subscription of 680,000,000 Shares by Proper Glory, no other contract has been entered into by members of the Group within the two years prior to 11 January 2005, being the date of the first announcement published in relation to the Offer, and up to the Latest Practicable Date, which is or may be material.

## 9. SERVICE CONTRACTS

Mr. Ang Siu Lun, Lawrence, an executive Director, entered into a service agreement with the Company for a term of 3 years commencing on 23 February 2004 (until determined by either party giving to the other not less than three month's written notice) at a Director's fee of HK\$1,300,000 per annum without any bonus payment. No other type of emolument is entitled by Mr. Ang Siu Lun, Lawrence under such service agreement.

Saved as disclosed above, as at the Latest Practicable Date, there were no Director's service agreements in force with any member of the Group or any associated company of the Company which have more than 12 months to run nor had any Director entered into or amended any service contract with any member of the Group or any associated company of the Company within the six months preceding 11 January 2005, being the date of the first announcement published in relation to the Offer.

## 10. LITIGATION

None of the members of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

## 11. CONSENT AND QUALIFICATIONS

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

<b>Name</b>	<b>Qualification</b>
G.K. Goh	a corporation licensed to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO
Tai Fook	a corporation licensed to conduct type 6 (advising on corporate finance) regulated activity under the SFO
BCOM	a corporation licensed to conduct types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Each of G.K. Goh, Tai Fook and BCOM has given, and has not withdrawn, its written consent to the issue of this document with the inclusion herein of its letter and/or references to its name, in the form and context in which it appears.

## 12. GENERAL

- (a) The registered office of the Offeror is at P.O. Box 957, Offshore Incorporations, Centre, Road Town, Tortola, British Virgin Islands and its address in Hong Kong is at Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong.
- (b) The registered office of G.K. Goh is at Suit 1808, Alexandra House, 16-20 Chater Road, Central, Hong Kong.
- (c) The company secretary and qualified accountant of the Company is Mr. Cheung Chung Yan, an associate member of the Association of Chartered Certified Accountants.
- (d) The branch share registrar and transfer office of the Company in Hong Kong is Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (e) The English text of this document shall prevail over the Chinese text.

## 13. MISCELLANEOUS

- (a) No benefit will be given to any Director as compensation for loss of office or otherwise in connection with the Offer.
- (b) There is no agreement, arrangement or understanding (including any compensation arrangement) existing between the Offeror, or any person acting in concert with it, and any Directors, recent directors, shareholders or recent shareholders of the Company that is connected with, or dependent upon, the Offer.
- (c) There is no agreement, arrangement between any Directors and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer
- (d) Save for the Share Purchase Agreement, there is no material contract to which the Offeror is a party in which any Director has a material personal interest.

**14. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at the offices of the Company, Room 2301, 23rd Floor, Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong from 9:00 a.m to 5:00 p.m. up to and including the Closing Date:

- (a) the memorandum of association and bye-laws of the Company and of the Offeror;
- (b) copies of the annual report of the Company for the two years ended 31 December 2004;
- (c) the service contract of Mr. Ang Siu Lun, Lawrence dated 23 February 2004 referred to in the section headed “9. Service Contracts” in this Appendix III;
- (d) the letter from G.K. Goh, the text of which is set out on pages 10 to 17 of this document;
- (e) the letter from the Independent Board Committee, the text of which is set out on pages 18 to 19 of this document;
- (f) the letter from the Joint Independent Financial Advisers, the text of which is set out on pages 20 to 36 of this document;
- (g) the letter of consent from each of G.K. Goh, Tai Fook and BCOM referred to in the section headed “11. Consent and Qualifications” in this Appendix III.