
IMPORTANT

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

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

If you have sold or transferred all your shares in 401 Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



401 Holdings Limited

(Incorporated in Bermuda with limited liability)

DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING THE ISSUE OF SHARES AND CONVERTIBLE BOND

ADOPTION OF NEW SHARE OPTION SCHEME

GENERAL MANDATES TO ISSUE AND PURCHASE SHARES

A notice convening a special general meeting of 401 Holdings Limited to be held at 9:30 a.m. on Monday, 12th August, 2002, at Function Room, Basement, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong is set out on pages 47 to 50 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the head office and principal place of business of the Company in Hong Kong at Units 2204-5, 22nd Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude shareholders from attending and voting in person at the meeting or any adjourned meeting should they so desire.

22nd July, 2002

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DEFINITIONS

In this circular and the appendix, the following expressions shall have the following meaning unless the context requires otherwise:

“Acquisition”	the acquisition of the Property under the Agreement;
“Agreement”	a conditional sale and purchase agreement entered into amongst the Purchaser, the Vendor and the Company dated 28th May, 2002;
“Associates”	shall have the same meaning as defined in the Listing Rules;
“Board”	the board of Directors of the Company;
“Bond”	an interest bearing convertible bond in the aggregate principal amount of HK\$5,000,000, at an interest rate of 4 per cent per annum of the principal amount of the Bond outstanding, to be issued by the Company;
“Bondholder”	the person who is for the time being the holder of a Bond;
“Business Day”	a day (excluding Saturdays) on which licensed banks in Hong Kong are open for business;
“Company”	401 Holdings Limited, a company incorporated in Bermuda with limited liability and the Shares of which are listed on the Stock Exchange;
“Completion”	completion of the Agreement;
“Consideration”	HK\$15,000,000;
“Consideration Shares”	such number of Shares with an aggregate value of HK\$6,000,000 based on either the par value of a Share or the average closing price of a Share for the preceding twenty trading days prior to the date of the SGM, whichever is higher;
“Conversion Rights”	the rights attached to the Bond to convert the principal amount or a part thereof into Shares;

DEFINITIONS

“Conversion Shares”	the Shares to be issued by the Company under the Bond (whether upon exercise by a Bondholder of the Conversion Rights or otherwise pursuant to the conditions attached to the Bond);
“Date of Grant”	in respect of an Option, the Business Day on which the Board resolves to make an offer of that Option to a Participant;
“Directors”	directors of the Company;
“Existing Options”	the share options granted by the Company under the Old Scheme;
“Grantee”	a Participant who has been granted and accepted (an) Option(s);
“Group”	the Company and its subsidiaries;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Director”	Mr. Koo Tsang Hoi, an independent non-executive Director;
“Independent Shareholders”	the shareholders of the Company other than Mr. Leung, the Vendor and their respective Associates;
“Independent Third Party”	an independent third party not connected with the Company, Directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or their respective Associates;
“Issue Date”	the date of issue of the Bond;
“Issued Share Capital”	the issued ordinary share capital of the Company as at the Latest Practicable Date;
“Latest Practicable Date”	19th July, 2002, the Latest Practicable Date for ascertaining certain information for inclusion in this circular;

DEFINITIONS

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Maturity Date”	the third anniversary of the Issue Date;
“Mr. Leung”	Mr. Leung Tze Hang David, the Managing Director of the Company;
“New Scheme”	the new share option scheme proposed to be approved by the Shareholders at the SGM, a summary of the principal terms of which is set out in appendix II on pages 31 to 37 of this circular;
“Old Scheme”	the share option scheme adopted by the Company on 13th August, 1998 and which expired on 13th August, 2001;
“Options”	options that may be granted pursuant to the New Scheme;
“Pacific System”	Pacific System Development Limited, an Independent Third Party and the beneficial owner of which is also an Independent Third Party;
“Participants”	persons eligible to be granted Options under the New Scheme as specified in paragraph 2 of appendix II on page 31 of this circular;
“Property”	all those 21 equal undivided 12,841st parts or shares of and in all that piece or parcel of ground registered in the Land Registry as the remaining portion of section O of Kowloon Marine Lot No.40 and of and in the messuages erections and buildings thereon known at the date hereof as “Hung Hom Commercial Centre, Nos. 37-39 Ma Tau Wai Road, Kowloon” together with the right to the exclusive use occupation and enjoyment of all that Unit No.42 on the ground floor of the building and all that portion forming the entrance hall on the ground floor including the staircase, landing and lift shaft leading to the second floor of the building and all those portions forming the staircase, landing and lift shaft on the first floor

DEFINITIONS

	of the building leading to the second floor and the appurtenances thereto subject to and with the benefit of a Deed of Mutual Covenant registered in the Land Registry by Memorial No.2380654 and Sub-Deed of Mutual Covenant Memorial No.5909240;
“Purchaser”	Onelink Investment Limited, a wholly-owned subsidiary of the Company;
“SGM”	the special general meeting of the Company to be held on 12th August, 2002 (or any adjournment thereof);
“Shares”	ordinary shares of HK\$0.01 each in the share capital of the Company;
“Shareholders”	holders of the Shares;
“Somerley”	Somerley Limited, an investment adviser and exempt dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), which has been appointed as the independent financial adviser to the Independent Director;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Takeover Code”	the Hong Kong Code on Takeovers and Mergers;
“Valuation Report”	a valuation report on the Property prepared by B.I. Appraisals Limited dated 27th May, 2002 which is set out in appendix I on pages 25 to 30 of this circular;
“Vendor”	SIIC Finance Company Limited, a limited liability company incorporated in Hong Kong, which together with its beneficial owners are Independent Third Parties; and
“\$” and “cents”	Hong Kong dollars and cents respectively.

LETTER FROM THE BOARD



401 Holdings Limited

(Incorporated in Bermuda with limited liability)

Directors:

Leung Tze Hang, David (*Managing Director*)
Law Chuen Lam, Edward
Au-Yeung Yok Cho
Po Kam Hi, John
Koo Fook Sun, Louis
Choi Koon Ming*
Ha Kee Choy, Eugene*
Leung Ka Kui, Johnny**
Koo Tsang Hoi**

**Non-executive directors*

*** Independent non-executive directors*

Registered office:

Cedar House
41 Cedar Avenue
Hamilton, HM 12
Bermuda

*Head office and principal place
of business in Hong Kong:*

Units 2204-5, 22nd Floor
West Tower, Shun Tak Centre
200 Connaught Road Central
Hong Kong

22nd July, 2002

*To the Shareholders, and for information only,
the holders of convertible bonds and
preference shares of the Company*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
INVOLVING THE ISSUE OF SHARES
AND CONVERTIBLE BOND**

ADOPTION OF NEW SHARE OPTION SCHEME

GENERAL MANDATES TO ISSUE AND PURCHASE SHARES

INTRODUCTION

The Directors announced on 4th June, 2002 that an agreement was entered into by the Purchaser, a wholly-owned subsidiary of the Company, the Company (as guarantor) and the Vendor whereby the Vendor agreed to sell and the Purchaser agreed to purchase the Property for the Consideration.

LETTER FROM THE BOARD

The Agreement constitutes a discloseable transaction for the Company under the Listing Rules. It also constitutes a connected transaction of the Company as a mortgage was created by the legal owner of the Property, Pacific System, to secure a loan advanced to a company in which Mr. Leung is interested in 90% of its share capital. Accordingly, the SGM will be convened, at which an ordinary resolution will be proposed to approve, amongst other things, the Agreement, the issue of the Consideration Shares and the Bond, and the issue of Conversion Shares upon conversion of the Bond.

The Directors also note that the Stock Exchange announced certain amendments to Chapter 17 of the Listing Rules (share option schemes) on 23rd August, 2001 which came into effect on 1st September, 2001. The Directors propose that the Company adopts the New Scheme which will comply with the amended rules. The Company has no share option scheme as at the Latest Practicable Date and the Old Scheme has expired on 13th August, 2001. A summary of the principal terms of the New Scheme is set out in appendix II on pages 31 to 37 of this circular.

THE AGREEMENT

On 28th May, 2002, the Company, the Purchaser and the Vendor entered into the Agreement pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase the Property which is subject to existing tenancies upon Completion. The saleable area of the Property is in total approximately 1,582 square feet and the rental income from the tenancies for the month of May, 2002 was HK\$56,450. The occupancy rate of the Property for the month of May, 2002 was approximately 24%. So far as the Company is aware, all existing tenants of the Property are Independent Third Parties. Most of the existing tenancies are for a term of one month and subject to renewal by the tenants at the end of the term.

Consideration:

On Completion, the Consideration of HK\$15,000,000 will be payable by the Company to the Vendor or as it may direct in the following manner:-

- (i) by payment of HK\$4,000,000 in cash;
- (ii) by the issue and allotment of such number of Consideration Shares with an aggregate value of HK\$6,000,000 based on either the par value of a Share or the average closing price of a Share for the preceding twenty trading days prior to the date of the SGM, whichever is higher, credited as fully paid; and
- (iii) by the issue of the Bond.

LETTER FROM THE BOARD

The Consideration was determined by both parties on the basis of arm's length negotiations with reference to the Valuation Report (based on an open-market valuation of the Property of HK\$16,000,000 as at 25th May, 2002) prepared by B.I. Appraisals Limited, a professional property surveyor and valuer which is an Independent Third Party. The Directors consider that the Consideration to be fair and reasonable. Given that as at 30th June, 2002, the Group had approximately HK\$620,000 cash, the payment of the Consideration was structured in a way so as to reduce the financial burden on the Company that would otherwise arise if the Acquisition was wholly financed by cash payment. The cash payment by the Company of HK\$4,000,000 and the transaction cost for the Acquisition will be funded principally by way of a mortgage loan in the principal sum of HK\$5 million (the "New Loan") from a bank. The New Loan bears annual interest at prime rate which is currently 5.125% and is repayable, together with interest thereon, by 120 equal monthly installments. Such bank facility would be available to the Group upon completion of the Acquisition.

Based on a value of HK\$0.01 per Consideration Share, 600,000,000 Consideration Shares will be issued which represent approximately 3.71% of the existing issued ordinary share capital of the Company as at the Latest Practicable Date and approximately 3.58% of the issued ordinary share capital of the Company as enlarged by the issue of the Consideration Shares (assuming that up to the date of issue of the Consideration Shares, there will be no change in the issued share capital of the Company). The Consideration Shares will rank pari passu with the Shares in issue at the time of issue and allotment of the Consideration Shares.

Assuming conversion of the Bond in full and based on a conversion price of HK\$0.01 per Conversion Share, 500,000,000 Conversion Shares will be issued which represent approximately 3.09% of the existing issued ordinary share capital of the Company as at the Latest Practicable Date and approximately 2.90% of the issued ordinary share capital of the Company as enlarged by the issue of 600,000,000 Consideration Shares and 500,000,000 Conversion Shares (assuming that up to the date of issue of the Conversion Shares, there will be no change in the issued share capital of the Company). As at the Latest Practicable Date, the Vendor and its beneficial owners do not hold any existing Shares.

Conditions Precedent:

Completion of the Agreement is conditional upon the following conditions being fulfilled:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares and the Conversion Shares;
- (ii) the approval of the Agreement, the issue and allotment of the Consideration Shares and the Conversion Shares upon conversion of the Bond and the issue of the Bond by the Independent Shareholders at the SGM; and
- (iii) all other approvals (if any) to be granted by the appropriate authorities.

LETTER FROM THE BOARD

Upon the request of the Purchaser, the Vendor has agreed to extend the long-stop date for completion of the above conditions from 31st July, 2002 to 31st August, 2002. Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares and the Conversion Shares.

Other terms of the Agreement

Other terms of the Agreement include, amongst others:—

- (i) the Vendor shall assign the Property as mortgagee in exercise of its power of sale under Mortgage Memorial No.7171814 and Memorial No.7697698; and
- (ii) the Company has unconditionally and irrevocably guaranteed to the Vendor the due and punctual performance and discharge by the Purchaser of all its obligations under or pursuant to the Agreement.

Completion:

Completion of the Agreement will take place on the seventh Business Day immediately following the fulfilment of the conditions referred to above or such other date as agreed by the parties to the Agreement.

PRINCIPAL TERMS OF THE BOND

Aggregate principal amount:

The aggregate principal amount of the Bond will be HK\$5,000,000.

Interest:

The Bond will bear interest from the date of issue at the rate of 4 per cent per annum of the principal amount of the Bond outstanding, which will be payable by the Company quarterly in arrears. The first payment shall be made on the date falling three calendar months after the date of issue of the Bond.

Repayment date:

The final date of repayment will be the Maturity Date. However, the Company may at any time redeem all or part (in an amount or integral multiple of HK\$500,000) of the outstanding principal amount of the Bond after giving not less than thirty days' written notice to the Bondholder(s).

LETTER FROM THE BOARD

Conversion:

The initial conversion price will be HK\$0.01 per Share, subject to adjustment, and was agreed after arm's length negotiations. Subject to the other terms of the Bond, the Bondholder(s) has the right to convert (to the extent not already redeemed) all or part of the Bond into Conversion Shares at any time prior to the redemption of the Bond.

The initial conversion price of HK\$0.01 per Share represents the closing price per Share of HK\$0.01 as quoted on the Stock Exchange as at the Latest Practicable Date.

Conversion Rights may only be exercised in respect of 50,000,000 Conversion Shares or integral multiples thereof or if the remaining outstanding amount is less than HK\$500,000, in the entire outstanding amount. Fractions of Shares will not be issued on conversion and no cash adjustment will be made in respect thereof.

Shares to be issued upon conversion:

The Conversion Shares will rank pari passu in all respects with the Shares in issue at the date of conversion.

Based on a conversion price of HK\$0.01 per Conversion Share, 500,000,000 Conversion Shares will be issued upon full conversion of the Bond, representing approximately 3.09% of the existing issued ordinary share capital of the Company and approximately 2.90% of the issued ordinary share capital of the Company as enlarged by the issue of 600,000,000 Consideration Shares and 500,000,000 Conversion Shares (assuming that up to the date of issue of the Conversion Shares, there will be no change in the issued share capital of the Company).

Voting rights of the Bondholder(s):

The Bondholder(s) will not be entitled to receive notices of, attend or vote at any general meeting of the Company by reason only of it being the Bondholder(s).

Transferability:

The Bond is transferable or assignable subject to full compliance with (i) relevant provisions of the Listing Rules (ii) the approval for listing of and permission to deal in the Conversion Shares and (iii) all applicable laws and regulations and the prior written consent of the Company. Any assignment or transfer of the Bond can be in respect of the whole or any part of the outstanding principal amount of the Bond provided that any such assignment or transfer shall be for the sum of HK\$1,000,000 or integral multiples thereof. The Company will undertake to inform the Stock Exchange immediately if it comes to its notice that any of the Bond is proposed to be transferred to a connected person of the Company (as defined in the Listing Rules).

LETTER FROM THE BOARD

Events of Default:

Any Bondholder may demand repayment of the principal amount of the Bond together with accrued interest calculated up to and including the repayment date immediately upon the occurrence of certain events which include, amongst others, (i) the failure of the Company to pay the principal amount when due or to pay interest on the Bond when due unless non-payment of such interest is due solely to administrative or technical error and payment is made within seven business days of the due date thereof; (ii) the default by the Company in performance or observance or compliance with any of its obligations under the terms and conditions of the Bond and which default is incapable of remedy; (iii) an order made or an effective resolution passed for winding-up of the Company; or (iv) the Shares cease to be listed on the Stock Exchange for a continuous period of 20 trading days due to the default of the Company.

Listing:

No listing of the Bond will be sought on the Stock Exchange or any other stock exchanges.

REASONS FOR THE ACQUISITION

The Company is principally engaged in investments, freight forwarding business and providing property services and logistic services. The Company currently owns retail units with total saleable area of 4,632 square feet on the second floor of Hunghom Commercial Centre, where the Property is situated, for investment purpose. Since the retail units are less easily accessible by the consumers, they are all vacant at the moment. As the Property is situated at a more premier location of Hunghom Commercial Centre and includes access to the second floor, the Company intends to conduct promotional activities at the Property to attract consumers which will enhance the number of consumers entering into the premises, thereby creating better potential for upward appreciation both in terms of capital value and rental income. As a result, the Company believes that it will benefit from an anticipated growth in value of both the Property and its investment in the premises. The preliminary plans of the Company is to develop the Property and the retail units owned by the Group on the second floor into a arcade with a specific theme. The Directors presently intends to develop the arcade with concepts evolving around products relating to babies or pets. However, before the Company implement such plans, it will conduct market analysis on this aspect.

Based on the rental received for the 12-month period up to and including May, 2002, the average monthly rental from the Property is approximately HK\$50,000 and could not fully cover the future outgoings incidental to the Property including the instalment payment in respect of the facility for funding the cash payment, the interest payable under the Bond as well as operating expenses which would amount to approximately HK\$71,000 (or approximately

LETTER FROM THE BOARD

HK\$54,000 if the Bond is fully converted). However, for the reasons mentioned above, the Directors consider that the shortfall is insignificant. If the benefits to the second floor can be materialised, the Directors believe that the acquisition of the Property would bring positive cashflow to the Group. The Property will be held by the Company for its own use as well as for investment purpose. The Directors consider that upon completion of the Acquisition, the asset portfolio of the Group will be enriched while the liabilities of the Group will be increased by the principal amount of the Bond and the facility obtained by the Company for funding the cash payment to the Vendor.

APPROVAL BY THE INDEPENDENT SHAREHOLDERS

The Agreement constitutes a discloseable transaction for the Company under the Listing Rules. It also constitutes a connected transaction of the Company as a mortgage was created by Pacific System to secure a loan advanced to a company in which Mr. Leung is interested in 90% of its share capital. Accordingly, the SGM will be held, at which an ordinary resolution will be proposed to approve, amongst other things, the Agreement, the issue of the Consideration Shares and the Bond, and the issue of the Conversion Shares upon conversion of the Bond. Mr. Leung and his Associates will abstain from voting at the SGM in respect of such resolution.

Since Mr. Leung Ka Kui, Johnny, one of the two independent non-executive Directors is the legal adviser to the Company in respect of the Acquisition, the remaining independent non-executive Director, namely Mr. Koo Tsang Hoi, will advise the Independent Shareholders on the Agreement. Somerley has been appointed as the independent financial adviser to advise the Independent Director on the same.

DETAILS OF THE NEW SCHEME

It is also proposed at the SGM that an ordinary resolution be approved to adopt the New Scheme. The purpose of the New Scheme is to provide 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.

The New Scheme does not specify a minimum period for which an Option must be held nor a performance target which must be achieved before an Option can be exercised. However, the rules of the New Scheme provide that the Board may determine, at its sole discretion, such term(s) on the grant of an Option. This determination may vary on a case by case basis but no such term(s) shall be imposed the result of which will be to the advantage of the Participants. The basis for determination of the subscription price is also specified precisely in the rules of the New Scheme. The Directors consider that the aforesaid criteria and rules will serve to preserve the value of the Company and encourage the Participants to acquire proprietary interests in the Company.

LETTER FROM THE BOARD

The Directors consider that it is not appropriate to state the value of all Options that can be granted under the New Scheme as if they had been granted on the Latest Practicable Date as a number of variables which are crucial for the calculation of that value have not been determined. Such variables include the exercise price, exercise period, any performance targets set and other relevant variables. The Directors believe that any calculation of the value of the Options as at the Latest Practicable Date based on a great number of speculative assumptions would not be meaningful and would be misleading to the Shareholders.

The adoption of the New Scheme is conditional upon:-

- (1) the Shareholders passing an ordinary resolution at the SGM to approve the adoption of the New Scheme; and
- (2) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares to be allotted and issued pursuant to the exercise of the Options granted under the New Scheme up to 10% of the Shares in issue as at the date of the SGM.

If condition (2) above is not satisfied on or before the date following 30 days after the date of adoption of the New Scheme, the New Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the New Scheme.

Based on 16,169,693,317 Shares in issue as at the Latest Practicable Date and assuming that there will be no change in the issued share capital of the Company before the SGM, the maximum number of Shares that can be issued upon exercise of options that may be granted under the proposed New Scheme is 1,616,969,331 Shares which represents 10% of the Issued Share Capital.

As at the Latest Practicable Date, 1,312,000,000 Existing Options, representing 8.11% of the Issued Share Capital, were granted of which (i) 86,000,000 Existing Options, representing 0.53% of the Issued Share Capital, had been exercised; (ii) 571,000,000 Existing Options, representing 3.53% of the Issued Share Capital, had lapsed in accordance with the terms of the Old Scheme and (iii) 655,000,000 Existing Options, representing 4.05% of the Issued Share Capital remain unexercised and outstanding. Exercise of the outstanding Existing Options would result in 655,000,000 Shares being issued. The outstanding Existing Options have continued to be exercisable in accordance with their terms of issue after the expiry of the Old Scheme on 13th August, 2001 and will continue to do so provided that any such exercise of the Existing Options is in compliance with the Listing Rules.

LETTER FROM THE BOARD

An application will be made to the Listing Committee of the Stock Exchange for approval of the listing of and permission to deal in the Shares that may be allotted and issued pursuant to the exercise of the Options that may be granted under the New Scheme up to 10% of the Shares in issue as at the date of the SGM. An announcement will be made by the Company in compliance with the Listing Rules in respect of the outcome of the SGM.

PROPOSED GRANT OF GENERAL MANDATE TO ISSUE AND TO PURCHASE SECURITIES

At the forthcoming SGM, ordinary resolutions will be proposed to grant to the Directors new general mandates to:

- (i) allot, issue and otherwise deal with new Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the proposed resolution at the SGM; and
- (ii) purchase its Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the proposed resolution at the SGM.

A separate ordinary resolution will also be proposed at the SGM to add to the mandate to issue Shares a number of Shares equal to the number (if any) of Shares purchased by the Company pursuant to the purchase mandate granted to the Directors at the SGM.

In accordance with the Listing Rules, the Company is required to send to the Shareholders an explanatory statement containing information reasonably necessary to enable its Shareholders to make an informed decision on whether to vote for or against the resolutions to approve the granting of a mandate to the Directors to exercise the powers of the Company to issue new Shares and purchase its own Shares. The explanatory statement is set out in appendix III on pages 38 to 40 of this circular.

Based on 16,169,693,317 Shares in issue as at the Latest Practicable Date and assuming that there will be no change in the issued share capital of the Company before the SGM, the maximum number of Shares that can be (i) issued under the general mandate to issue new Shares and (ii) purchased under the general mandate to purchase Shares proposed to be granted to the Directors is 3,233,938,663 Shares and 1,616,969,331 Shares respectively.

LETTER FROM THE BOARD

SPECIAL GENERAL MEETING

Set out on pages 47 to 50 of this circular is a notice convening the SGM to be held at Function Room, Basement, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong at which ordinary resolutions will be proposed to approve, amongst other things, the Agreement, the issue of the Consideration Shares and the Bond, the issue of the Conversion Shares upon conversion of the Bond, the adoption of the New Scheme and the grant of a mandate to the Directors to exercise the powers of the Company to issue new Shares and purchase its own Shares.

A form of proxy for use at the SGM is enclosed. Whether or not you intend to attend this meeting, you are requested to complete and return the form of proxy to the head office and principal place of business of the Company in Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event so as to arrive not less than 48 hours before the time fixed for holding the meeting. The return of a form of proxy will not preclude you from attending and voting in person at the SGM if you so wish.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Director set out in page 15 of this circular which contains his recommendation to the Independent Shareholders and the letter from Somerley set out in pages 16 to 24 of this circular which contains its advice to the Independent Director and the principal factors considered.

The Directors believe that the adoption of the New Scheme is in the best interests of the Company and the Shareholders. Accordingly, the Directors recommend all Shareholders to vote in favour of the ordinary resolution for the adoption of the New Scheme at the SGM.

A copy of the New Scheme is available for inspection during the normal business hours at the principal place of business in Hong Kong of the Company for the date of this circular up to the date of the SGM (both days inclusive).

GENERAL

Your attention is also drawn to the notice of the SGM, the Valuation Report, the summary of the principal terms of the New Scheme, the explanatory statement and the general information set out in appendix IV to this circular.

Yours faithfully,
For and on behalf of the Board
Leung Tze Hang, David
Managing Director

LETTER FROM THE INDEPENDENT DIRECTOR



401 Holdings Limited

(Incorporated in Bermuda with limited liability)

22nd July, 2002

To the Independent Shareholders

Dear Sir or Madam,

DISCLOSEABLE AND CONNECTED TRANSACTION

I refer to the circular dated 22nd July, 2002 issued by the Company (“Circular”) of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless specified otherwise.

As Mr. Leung Ka Kui, Johnny, one of the two independent non-executive Directors, is the legal adviser to the Company in respect of the Acquisition, I have been appointed as the Independent Director to advise you as to whether the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Somerley has been appointed as the independent financial adviser to advise me in this respect. I wish to draw your attention to the letter from the Board as set out on pages 5 to 14 of the Circular and the letter of advice from Somerley as set out on pages 16 to 24 of the Circular.

I, having taking into account the advice of Somerley consider that the terms of the Agreement are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, I recommend the Independent Shareholders to vote in favour of the ordinary resolution no.1 to be proposed at the SGM.

Yours faithfully,

Koo Tsang Hoi

Independent Non-Executive Director

LETTER FROM SOMERLEY

The following is the letter of advice from Somerley to the Independent Director prepared for the purpose of inclusion in this circular.



Somerley Limited
Suite 3108,
One Exchange Square
8 Connaught Place
Central
Hong Kong

22nd July, 2002

The Independent Director
401 Holdings Limited
Units 2204-5
22/F, West Tower
Shun Tak Centre
200 Connaught Road Central
Hong Kong

Dear Sir,

DISCLOSEABLE AND CONNECTED TRANSACTION INVOLVING THE ISSUE OF SHARES AND THE BOND

We refer to our appointment to advise the Independent Director as regards the Group's proposed acquisition of the Property from the Vendor pursuant to the Agreement. Details of the Acquisition are set out in the "Letter from the Board" contained in the circular to the Shareholders dated 22nd July, 2002 (the "Circular"), of which this letter forms part. Unless otherwise defined herein, terms used in this letter shall have the same meanings as defined in the Circular.

The Vendor is an Independent Third Party and is entering into the Agreement in exercise of its power of sale under a mortgage (the "Mortgage") created over the Property. The Mortgage was created by the legal owner of the Property, Pacific System, to secure a loan advanced to a company in which Mr. Leung Tze Hang, David, the Managing Director of the Company, is interested in 90% of its issued share capital. The proposed acquisition of the Property from the Vendor as mortgagee in possession therefore constitutes a discloseable and connected transaction of the Company under the Listing Rules and is subject to, among other things, approval of the Independent Shareholders. Mr. Leung Ka Kui, Johnny, an independent non-executive Director, is the legal adviser to the Company in respect of the Acquisition. The remaining independent non-executive Director, Mr. Koo Tsang Hoi, has been appointed to

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consider the terms of the Agreement and to make recommendation to the Independent Shareholders thereon. We have been appointed to give an opinion to the Independent Director on the fairness and reasonableness of the terms of the Agreement.

In formulating our opinion, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that all statements and representations made to us by the Directors and management of the Company or made or referred to in the Circular are true and accurate at the time they were made and as at the date of the Circular and will continue to be true at the date of the SGM. We have also sought and received confirmation from the Directors and management of the Company that all material relevant information has been supplied to us and no material facts have been omitted from the information supplied and opinions expressed. We have relied on such information and consider that we have been provided with and have reviewed sufficient information to reach an informed view and to justify our reliance on the accuracy of the information contained in the Circular. We have no reason to believe that any material information has been withheld. We have not, however, conducted an independent investigation into the affairs of the Group.

In arriving at our opinion, we have taken the following factors and reasons into consideration:

1. REASONS FOR THE ACQUISITION

The Group is principally engaged in property investment and provision of property services as well as freight forwarding and logistic services. As reflected in the Group's latest published unaudited accounts for the six months ended 30th September, 2001 (the "2001 Interim Report"), property investment and provision of property services became the increasingly important revenue contributors to the Group subsequent to the disposal of a subsidiary of the Company, namely AWT Shipping Limited, in March 2001.

As mentioned in the "Letter from the Board" of the Circular, the Group currently owns retail units on the second floor of Hunghom Commercial Centre, Hung Hom, Kowloon (the "Shopping Podium") with a total saleable area of approximately 4,632 square feet (the "Existing Property"). The Agreement represents an opportunity to acquire further unit on the ground floor of the Shopping Podium with a total saleable area of 1,582 square feet, which comprise an entrance hall with access to the Existing Property. The Existing Property is on the second floor of the Shopping Podium, which is less easily accessible by the shoppers and is currently vacant. The Property is situated at a more premier location of the Shopping Podium. The Acquisition would therefore add value to the Group by allowing conduct of promotional activities at an entrance hall on the ground floor of the Shopping Podium. It is believed that such promotional activities at a premier location of the Shopping Podium could attract shoppers to the Existing Property on the second floor, thereby creating better potential for

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upward appreciation both in terms of capital value and rental income. The preliminary plans of the Company is to develop the Property and the retail units owned by the Group on the second floor into a arcade with a specific theme. The Directors presently intends to develop the arcade with concepts evolving around products relating to babies or pets. However, before the Company implement such plans, it will conduct market analysis on this aspect.

We are of the view that the Acquisition is in line with the normal course of business of the Group of property investment. The Acquisition adds to and is believed could enhance value of the Group's Existing Property in the same shopping arcade, thereby allowing consolidation and extension of the Group's property investment holdings in an efficient manner.

2. METHOD OF FINANCING THE ACQUISITION

The Property will be acquired at HK\$15 million, which, if wholly payable in cash, would be a heavy financial burden to the Group, given its tight cashflow position. According to the Company's announcement dated 10th July, 2002 (the "July Announcement"), as at 30th June, 2002, the Group had outstanding (i) secured and unsecured convertible bonds in an aggregate principal sum of HK\$21,690,000 and (ii) other secured borrowings in a sum of HK\$15,901,153, of which approximately HK\$29.6 million are payable within one year. As at 30th June, 2002, the Group had approximately HK\$620,000 cash. The cashflow position of the Group would be improved upon completion of the issue of the two convertible bonds in the total sum of HK\$6 million as announced in the July Announcement. The Group currently has litigation in respect of total claims of approximately HK\$6 million and the Directors are continuing discussion with them with a view to reaching settlement. As announced by the Company on 26th March, 2002, the Directors is also discussing with other creditors in relation to settlement of part of their outstanding obligation by way of issue of Shares (the "Debt Restructuring Plan").

In the circumstances, it is important to structure the Consideration in a way that can eliminate or significantly reduce the financial risk that would otherwise arise if the Acquisition is to be wholly financed by cash payment. It has been agreed that the Consideration will be payable as to (i) HK\$4 million in cash; (ii) HK\$6 million by Consideration Shares; and (iii) HK\$5 million by the issue of the Bond. The cash payment of HK\$4 million and the transaction cost for the Acquisition will be funded principally by way of a mortgage loan in the principal sum of HK\$5 million (the "New Loan") from a bank. The New Loan bears annual interest at prime rate which is currently 5.125% and is repayable, together with interest thereon, by 120 equal monthly installments. Such bank facility would be available to the Group upon completion of the Acquisition.

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Certain parts of the Property are currently occupied by short-term tenants as kiosks. The actual rental income received for the month of May 2002 is HK\$56,450. The average monthly rental received for the 12-month period up to and including May, 2002 is approximately HK\$50,000. This sum could not fully cover the future monthly outgoings incidental to the Property including the installment payment of the New Loan, the interest payable on the Bond as well as the operating expenses, which would amount to approximately HK\$71,000 (or approximately HK\$54,000 if the Bond is fully converted). However, the monthly shortfall is insignificant and the Directors believe that the conduct of promotional activities would attract shoppers and hence tenants to the Existing Property and the Property which are currently under utilised. If the above synergistic benefit to the Existing Property can be materialized, the Directors believe that the Acquisition would bring positive cashflow to the Group, which is particularly important given its tight cashflow position. On this basis and taking into account that the financial risk associated with the Acquisition has been significantly mitigated by the form of the Consideration, we agree with the Directors that there is commercial justification for the Acquisition.

3. BASIS OF THE CONSIDERATION

The Property will be acquired at HK\$15 million, which is at a 6.25% discount to the independent valuation of the Property of HK\$16 million as at 25th May, 2002 made by B.I. Appraisals Limited. We consider the 6.25% discount on valuation, which amounts to HK\$1 million, a favourable factor for the Group.

4. VALUATION OF THE PROPERTY

The Property has been valued by B.I. Appraisals Limited at HK\$16 million as at 25th May, 2002. The text of the valuation letter and certificate dated 27th May, 2002 in relation to the Property is set out in appendix I to the Circular. The Property comprises a shop unit on the ground floor and an entrance hall which provides access to the shopping arcade on the upper floors of the Hunghom Commercial Centre at 37-39 Ma Tau Wai Road, Hung Hom, Kowloon. Hunghom Commercial Centre consists of two blocks of high-rise office tower built over a 4-storey (inclusive of one basement level) commercial podium accommodating retail units and restaurants. According to the independent valuation report, the Property has a total saleable area of approximately 1,582 square feet. The actual rental income received for the month of May, 2002 is HK\$56,450.

In assessing the Consideration, we have reviewed and discussed with B.I. Appraisals Limited the methodology of, and basis and assumptions adopted for, the valuation of the Property as contained in the independent valuation report. For the purpose of the valuation, B.I. Appraisals Limited has adopted the direct comparison approach, which refers to comparable sales evidence or offering available in the market. The methodology is, in our opinion, a reasonable approach in establishing the open market value of the Property.

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5. TERMS OF CONSIDERATION SHARES AND THE BOND

As above-mentioned, the Consideration will be partially satisfied by Consideration Shares and the Bond.

The Consideration Shares and the Conversion Shares

The Consideration Shares will be issued at the higher of HK\$0.01 per Share or the average closing price of a Share for the preceding twenty trading days prior to the date of the SGM (the "Issue Price"). The initial conversion price (the "Initial Conversion Price") for the Bond will be HK\$0.01 per Conversion Share, subject to adjustment.

- Compare to par value

The Issue Price and the Initial Conversion Price is not less than the par value of the Shares, which is in accordance with the Bermudan Companies Act in respect of any issue of new Shares.

- Compare to market prices

We have examined the share price performance for the period from 1st July, 2001 to the Latest Practicable Date (the "Period"). Trading during the Period was at \$0.01. As the trading of the Shares was at HK\$0.01 over the Period, we consider the Issue Price and the Initial Conversion Price, which will not be lower than HK\$0.01, fair to the Company.

- Compare to net asset value

Assuming the Issue Price is at HK\$0.01 per Share, the Issue Price and the Initial Conversion Price are at:

- a premium of approximately 614% over the audited consolidated net tangible asset value per Share of HK\$0.0014 as at 31st March, 2001;
- a premium of approximately 669% over the unaudited consolidated net tangible asset value per Share of HK\$0.0013 as at 30th September, 2001; and
- a premium of approximately 426% over HK\$0.0019 (the "Adjusted Net Asset Value Per Share"), which is the unaudited consolidated net tangible asset value per Share as at 30th September, 2001 after adjusting for the loan capitalisation pursuant to the Settlement Agreements and the Consultancy Settlement Agreement (together the "Loan Capitalisation"), details of which are set out in the circular of the Company dated 4th February, 2002 (the "Loan Capitalisation Circular").

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We consider the determination of the Issue Price and the Initial Conversion Price at a substantial premium over the asset backing of the Shares favourable to the Company and the Independent Shareholders.

The Bond

The principal terms of the Bond are as follows:

- (a) Interest rate: 4% per annum
- (b) Maturity: three years, subject to the Company's right to early redeem (in an amount or integral multiple of HK\$500,000) after giving 30 days' written notice to the Bondholder
- (c) Conversion Price: As above-mentioned, the Conversion Price is initially HK\$0.01 per Share, subject to adjustment

Interest Rate

The Group has currently 11 outstanding convertible bonds. On 10th July, 2002, the Group announced proposed issue of two further convertible bonds (collectively the "Group Convertible Bonds"). 4 of the Group Convertible Bonds bear interest at 4% per annum while the annual interest rate for the remaining 9 Group Convertible Bonds is prime rate plus 2%. The Bond carries interest at 4% per annum, which is substantially lower than the majority of the Group Convertible Bonds that are currently outstanding. We are advised by the Company that the Group's current average cost of borrowing is approximately 6%, which is significantly higher than the interest rate for the Bond.

We have also reviewed a total of 3 3-year term convertible bonds with principal sum of not more than HK\$10 million issued by Hong Kong listed issuers since 1st July, 2001 (the "Market Comparables"). These 3 Market Comparables carry annual interest at 0%, 5% and 8% respectively. The Bond carries an annual interest rate of 4% and is within the market range. It should be noted that the Market Comparables are not necessarily entirely comparable with the Bond given differences in the credit rating of the issuers, the conversion or redemption or other features.

On the basis of the above analysis, we consider the interest rate for the Bond is set at a reasonable level.

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Maturity

4 of the Group Convertible Bonds were announced in year 2002 and they are 2-year term bonds. 1 Group Convertible Bond was issued in year 2001 and is also a 2-year term bond. Of the 8 Group Convertible Bonds issued in year 2000, 3 are 3-year term bonds while the remaining 5 are 2-year term bonds. The proposed term of the Bond is within that range and given the tight cashflow position of the Group, a 3-year term convertible bond which provides the Group with another source of medium term financing is particularly in the interest of the Group.

6. FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP

Net asset value and net asset value per Share

The Consideration will be satisfied as to HK\$6 million by the issue of the Consideration Shares. Consequently, on a proforma basis, the Acquisition will result in an increase over the book net tangible asset value of the Group by HK\$6 million. The pro forma net asset value per Share will be increased to HK0.22 cents from the Adjusted Net Asset Value Per Share of HK0.19 cents, representing an increase of approximately 15.8%.

If the Bond is fully converted into Shares, the consolidated net tangible asset value of the Group will increase further by HK\$5 million. The pro forma net asset value per Share will be HK0.25 cents, representing a further increment of approximately 13.6%.

The increase and the potential increase in the asset backing of the Group as a result of the Acquisition is favourable to the Group.

Gearing Ratio

The gearing ratio (the ratio of total borrowings of the Group as at 30th September, 2001 and adjusted for the subsequent issue of the Group Convertible Bonds, to Shareholders' fund as at 30th September, 2001 and adjusted for the Loan Capitalisation) of the Group is approximately 149%, which would be slightly increased to approximately 152% upon completion of the Acquisition. Therefore the Acquisition would not bring material adverse impact on the gearing ratio of the Group.

If the Bond is fully converted into Shares, the gearing ratio would be reduced to approximately 122%, which is, in our opinion, in the interests of the Group.

Cash flow

As above-mentioned, the cash portion of the Consideration and the transaction cost for the Acquisition would be substantially financed by the New Loan. The current level of rental

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income would be marginally insufficient to cover all outgoings incidental to the Property including the installment payment of the New Loan, the interest payable on the Bond as well as the operating expenses. However, the shortfall is insignificant, and the Directors believe that the conduct of promotional activities at the Property could attract tenants to the Existing Property, the rental income derived therefrom would well cover the aforesaid shortfall which is insignificant in amount. On this basis, the Acquisition would not have significant adverse impact on the Group's cashflow position, which the Directors expect can be significantly improved upon the materialisation of the Debt Restructuring Plan.

The Bond is repayable in three years. As above-mentioned, the Group is discussing with its creditors regarding the Debt Restructuring Plan, which may or may not be materialized. Moreover, whether or not the expected synergistic effect that the Acquisition may bring to the Existing Property can be realized is uncertain at this stage. In the circumstances, we are not in a position to assess the likely impact on the Group at the time when the Bond becomes repayable.

Earnings

The monthly expenses chargeable to the profit and loss accounts of the Group arising from the Acquisition, which would include the operating expenses and the interest payment for the New Loan and the Bond, are estimated to be approximately HK\$39,000. The Property is currently not fully rented out. On the basis of the average monthly rental received for the 12-month period up to and including May 2002 of approximately HK\$50,000, the Acquisition would generate net monthly income and hence bring positive contribution to the profit and loss account of the Group.

Dilution or potential dilution of Independent Shareholders' holdings

As at the Latest Practicable Date, the Independent Shareholders were interested in approximately 98.1% of the issued shares of the Company. Upon completion of the Acquisition, the shareholding in the Company held by Independent Shareholders would be reduced by approximately 3.5% from 98.1% to 94.6%. If the Bond is fully converted at the Initial Conversion Price of HK\$0.01 per Share, the Independent Shareholders' shareholding would be further reduced by approximately 2.8% to approximately 91.8%. Such dilution or potential dilution is, in our opinion, acceptable, taking into account the significant mitigation of financial risk that would otherwise arise if the Consideration is wholly satisfied by cash.

RISK FACTOR

As above-mentioned, on the basis of the historical level of rental income, the Property would not in future be able to be self-financed and the Group may have to contribute cash to finance the Property on an ongoing basis. However the shortfall is insignificant and the

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Directors believe the synergistic benefit that the Acquisition would bring to the rental or capital value of the Existing Property would outweigh the possible adverse cashflow impact on the Group resulting from the Acquisition. While on balance the Directors consider that the potential benefits from the Acquisition would outweigh the risk, the Independent Shareholders may wish to bear in mind that the synergistic benefit may or may not materialise or may take some time to materialize.

CONCLUSION AND RECOMMENDATION

We agree with the Directors that the Acquisition represents a logical extension of the Group's existing holdings in the Shopping Podium. The Consideration for the Acquisition, which is determined with reference to independent professional valuation, is standard and, in this case, the Group has been able to obtain a 6.25% discount (equivalent to HK\$1 million) from the independent professional valuation of the Property, which we consider a favourable factor.

We also consider the method of funding the Acquisition, which significantly reduces the financial risk which would otherwise arise if the Consideration is wholly payable in cash, is favourable to the Group. However, despite this, the Group may still need to finance the Property on a recurring basis if the rental or capital value of the Property and in particular, of the Existing Property could not be enhanced as a result of the promotional activities planned to be conducted at the Property. This may be a burden to the Group, particularly if the Debt Restructuring Plan could not be materialised. The Directors believe that the potential for enhancement in value of the Existing Property is substantial and on the basis of the information currently available to us, we have no reason to doubt that the expected synergistic benefit cannot be materialised.

Having considered the above principal factors and reasons, we are of the opinion that the terms of the Agreement (including the terms of the issue of the Consideration Shares and the Bond) are fair and reasonable so far as the Company and the Independent Shareholders are concerned and that the Acquisition is in the interests of the Company and the Independent Shareholders. Accordingly, we recommend the Independent Director to recommend the Independent Shareholders to vote in favour of ordinary resolution in respect of the Acquisition as set out in the notice of the SGM.

Yours faithfully,
For and on behalf of
SOMERLEY LIMITED
Mei H. Leung
Managing Director

The following is the text of a valuation report dated 27th May, 2002 received from B.I. Appraisals Limited in connection with its valuation of the Property for incorporation in this circular:

B.I. Appraisals

Registered Professional Surveyors, Valuers & Property Consultants
(Formerly Brooke International Appraisals Limited)

Room 609-10, Tower 2, Lippo Centre, 89 Queensway, Hong Kong
Tel: (852) 2137 9880 Fax: (852) 2137 9877
Email: info@bisurveyors.com.hk Website: www.bisurveyors.com.hk

27th May, 2002

The Directors
401 Holdings Limited
Units 2204-5, West Tower
Shun Tak Centre
No. 200 Connaught Road Central
Hong Kong

Dear Sirs,

Re: Unit No. 42 on Ground Floor, Hunghom Commercial Centre, Nos. 37-39 Ma Tau Wai Road, Hung Hom, Kowloon

In accordance with the instruction from 401 Holdings Limited (hereinafter referred to as the "Company") for us to value the property interest in the captioned property (hereinafter referred to as the "Property"), which basically comprises a shop space together with an entrance hall providing access to the shopping arcade on the upper floors, we confirm that we have inspected the Property, conducted land search at the Urban Land Registry, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of the Property as at 25th May, 2002 (hereinafter referred to as the "date of valuation").

Basis of Valuation

Our valuation is our opinion of the open market value of the property interest in the Property which we would define as intended to mean "the best price at which the sale of an interest in a property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;

- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Valuation Methodology

In arriving at our opinion of value of the Property, we have valued it by the Direct Comparison Approach assuming such property interest is capable of being sold in its existing state on a strata-titled basis with the benefit of immediate vacant possession and by making reference to comparable sales evidence or offering as available in the relevant market.

Valuation Assumptions

Our valuation has been made on the assumption that the owner sells the property interest in the open market without the benefit of a deferred terms contract, leaseback, joint venture, or any similar arrangement which would serve to affect the value of the Property.

No account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interest and no forced sale situation in any manner is assumed in our valuation.

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

Title Investigation

We have not been provided with copies of title documents relating to the property interest in the Property but have caused searches to be made at the Urban Land Registry. We have not been able to scrutinize the original documents to verify the ownership and to ascertain the existence of any amendments which may not appear on the copies available to us.

Limiting Conditions

We have inspected the exterior and, where possible, the interior of the Property. However, no structural survey has been made nor have any tests been carried out on any of the services provided in the Property. We are, therefore, not able to report as to whether the Property is free from rot, infestation or other structural defects. Yet, during the course of our inspection, we did not note any serious defects.

We have not carried out on-site measurements to verify the correctness of the floor area in respect of the Property but have assumed that the floor area shown on the documents and official floor plan handed to us are correct. Dimensions, measurements and areas included in the attached valuation certificate are based on information contained in the documents provided to us by the Company and are therefore only approximations.

We have relied to a considerable extent on the information provided by the Company and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, particulars of occupancy, tenancies, floor area and all other relevant matters in the identification of the Property.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Our valuation has been prepared in accordance with the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March 2000 and under generally accepted valuation procedures and practices.

Remarks

Unless otherwise stated, all monetary amounts stated in our valuation certificate are in Hong Kong Dollars (HK\$).

We hereby certify that we have neither present nor prospective interests in the Company or the value reported herein.

We attach herewith our valuation certificate.

Yours faithfully,
For and on behalf of
B.I. APPRAISALS LIMITED
William C. K. Sham MRICS, AHKIS, RPS (G.P.)
Executive Director

Note: Mr. William C. K. Sham is a Chartered Surveyor who has over 20 years' experience in valuing properties in Hong Kong.

VALUATION CERTIFICATE

<u>Property</u>	<u>Description and Tenure</u>	<u>Particulars of Occupancy</u>	<u>Open market value in existing state as at 25th May, 2002</u>
Unit No. 42 on Ground Floor, Hunghom Commercial Centre, Nos. 37-39 Ma Tau Wai Road, Hung Hom, Kowloon	The Property comprises a shop unit on the ground floor of Hunghom Commercial Centre which consists of two blocks of high-rise office tower built over a 4-storey (inclusive of one basement level) commercial podium completed in 1983.	The shop space of the Property is currently vacant; whereas the entrance hall is currently occupied by short-term tenants as kiosks. The total rental income for the month of May 2002 is approximately \$56,450.	\$16,000,000
21/12841st shares of and in the Remaining Portion of Section O of Kowloon Marine Lot No. 40	<p>The Property basically comprises a shop space and an entrance hall which provides access to the shopping arcade on the upper floors.</p> <p>The saleable area of the Property is approximately 146.97 square metres (1,582 square feet).</p> <p>Kowloon Marine Lot No. 40 is held under a Government Lease for a term of 75 years commencing from 15th September, 1897, renewable for a further term of 75 years.</p>		

Notes:

1. The registered owner of the Property is Pacific System Development Limited by an assignment vide Memorial No. 5602146 dated 10th March, 1993.
2. The Property is subject to the following material encumbrances:
 - a) Mortgage to secure general credit facilities for a consideration of an unlimited amounts in favour of SIIC Finance Company Limited vide Memorial No. 7171814 dated 26th June, 1997;
 - b) Legal Charge/Mortgage for a consideration of \$9,000,000 in favour of New Regent Finance Management Limited vide Memorial No. 7379168 dated 11th December, 1997 which was re-registered vide Memorial No. 7416657 on 17th February, 1998; and
 - c) Memorandum of Outstanding Management Charges by Guardian Property Management Limited vide Memorial No. 7744182 dated 28th April, 1999.
3. The Property is also subject to the following material encumbrances pending registration:
 - a) Mortgage in favour of China Liaoning Construction & Engineering (H.K.) Limited vide Memorial No. 4030664 dated 25th February, 1989 (registration withheld); and
 - b) Duplicate Letter in favour of Overseas Trust Bank Ltd. vide Memorial No. 4138927 dated 12th July, 1989 (registration withheld).

The following is a summary of the terms required to be included in the New Scheme as required by the Listing Rules:

I. Summary of the principal terms of the New Scheme

1. The purpose of the New Scheme is to provide the 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.
2. All directors (including executive directors, non-executive directors, independent non-executive directors and alternate directors) and employees of the Group who the Board considers, in its sole discretion, have contributed or will contribute to the Group or any member of it are eligible to participate in the New Scheme.
3. The total number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Scheme or any other share option schemes adopted by the Company must not exceed 30% of the Shares in issue from time to time. No Option may be granted under the New Scheme or any other share option schemes adopted by the Company if that will result in the 30% limit being exceeded. The number of Shares which may be issued upon exercise of all Options to be granted under the New Scheme shall not (when aggregated with any Shares subject to any other share option scheme(s) of the Company) exceed 10% of the Shares in issue as at the date of approval of the New Scheme by the Shareholders. Options which have lapsed in accordance with the terms of the New Scheme will not be counted in calculating the 10% limit. However, the Company may refresh this 10% limit with Shareholders' approval in general meeting with the issue of an appropriate circular to Shareholders provided that each such renewal may not exceed the 10% of the Shares in issue as at the date of the Shareholders' approval for refreshing the 10% limit. Options previously granted under the New Scheme and any other share option schemes adopted by the Company (including those outstanding, cancelled, lapsed in accordance with the relevant scheme or exercised options) will not be counted for the purpose of calculating the limit as refreshed. The Company will have to send a circular to Shareholders in accordance with the Listing Rules when seeking for such approval. The Company may seek separate approval by Shareholders in general meeting, with the issue of an appropriate circular to Shareholders, for granting options beyond the 10% limit provided the Options in excess of the limit are granted only to the Participants specially identified by the Company before such approval is sought.

4. Unless approved by Shareholders in the manner set out below in this paragraph, the total number of Shares issued and to be issued upon exercise of the Options granted to each Participant or Grantee (as the case may be) (including both exercised and unexercised Options) under the New Scheme or any other share option scheme adopted by the Company in any 12 month period must not exceed 1% of the Shares in issue. Any further grant of Options which would result in the number of Shares issued as aforesaid exceeding the said 1% limit shall be subject to prior Shareholders' approval with the relevant Participant or Grantee (as the case may be) and his associates (as such term is defined in the Listing Rules) abstaining from voting. A circular must be sent to the Shareholders disclosing the identity of such Participant or Grantee (as the case may be) and the number and terms of the Options granted and to be granted.
5.
 - (a) 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 relevant Date of Grant (being the Business Day on which the Board resolves to make an offer of Option to the relevant Grantee).
 - (b) In the event a Grantee, if an employee, ceases to be an employee of the Group for any reason other than (i) his or her death or (ii) on one or more of the grounds of termination of employment specified in paragraph 12(f) below, the Option shall lapse on the expiry of six months after the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option shall be exercisable to the extent and within such period as the Board may determine. The date of cessation of employment shall be the last actual working day on which the Grantee was physically at work with the Company or the relevant subsidiary, whether salary is paid in lieu of notice or not.
 - (c) In the event the Grantee dies before exercising the Option in full and, if the Grantee is an employee, none of the events for termination of employment under paragraph 12(f) below then exists with respect to such Grantee, the personal representative(s) of the Grantee shall be entitled within a period of 12 months from the date of death to exercise the Option up to the entitlement of such Grantee as at the date of death.
 - (d) If a general offer by way of takeover or otherwise (other than by way of scheme of arrangement pursuant to paragraph 5(e) below) is made to all the holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the

relevant Option, the Company shall forthwith give notice thereof to the Grantee and the Grantee shall be entitled to exercise the Option at any time within such period as shall be notified by the Board.

- (e) If a general offer for Shares by way of scheme of arrangement is made to all the holders of Shares and has been approved by the necessary number of holders of Shares at the requisite meetings, the Company shall forthwith give notice thereof to the Grantee and the Grantee may at any time thereafter (but before such time as shall be notified by the Board) exercise the Option.
 - (f) In the event a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to the Grantee and the Grantee may at any time thereafter (but before such time as shall be notified by the Company) exercise the Option, and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed shareholders' meeting, allot, issue and register in the name of the Grantee such number of fully paid Shares which fall to be issued on exercise of such Option.
 - (g) In the event of a compromise or arrangement, other than a scheme of arrangement contemplated in paragraph 5(e) above, between the Company and its members and/or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all Grantees on the same day as it first gives notice of the meeting to its members and/or creditors to consider such a scheme or arrangement and the Grantee may at any time thereafter (but before such time as shall be notified by the Company) exercise the Option, and the Company shall as soon as possible and in any event no later than three days prior to the date of the proposed meeting, allot, issue and register in the name of the Grantee such number of fully paid Shares which fall to be issued on exercise of such Option.
6. Each grant of Options to any Director, chief executive or substantial shareholder of the Company, or any of their respective associates (as such term is defined in the Listing Rules) shall be subject to the prior approval of the independent non-executive directors of the Company (excluding any independent non-executive director who is the proposed Grantee of the Option or an associate thereof). Where any grant of Options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates (as such term is defined in the Listing

Rules), would result in the Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12 month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% (or such other percentage as may from time to time be specified by the Stock Exchange) of the Shares in issue; and
- (b) having an aggregate value, based on the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant, in excess of HK\$5 million (or such other value as may from time to time be specified by the Stock Exchange),

such grant of Options shall be subject to prior approval by the Shareholders. Any vote taken at the meeting to approve the grant of such Options must be taken on a poll. All connected persons (as defined in the Listing Rules) of the Company shall abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular to be sent to the Shareholders in connection therewith.

7. Unless otherwise determined by the Board at its sole discretion, the New Scheme does not require a minimum period for which an Option must be held nor a performance target which must be achieved before an Option can be exercised. In the event that the Board resolves to impose such term(s) on the grant of an Option which decision may vary on a case by case basis, such term(s) should be stated in the letter containing the offer to the relevant Participant and no such term(s) shall be imposed the result of which will be to the advantage of the Participants.
8. The amount payable on acceptance of an Option is HK\$1 and an offer shall remain open for acceptance by the Participant for a period of 28 days from the date on which the letter containing the offer is delivered to that Participant.
9. The subscription price will be determined by the Board in its absolute discretion at the time the Option is offered to the relevant Participant but in any event shall be no less than the highest of (i) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the Date of Grant; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the 5 Business Days immediately preceding the Date of Grant; and (iii) the nominal value of a Share on the Date of Grant.

10. The Shares to be allotted and issued upon the exercise of an Option shall be subject to all the provisions of the memorandum and bye-laws of the Company in force at the relevant time and will rank pari passu in all respects with the fully paid Shares in issue on the date on which those Shares are allotted on exercise of the Option and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made after the date on which Shares are allotted other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be on or before the date on which the Shares are allotted.
11. The New Scheme shall be valid and effective for a period of ten years commencing on the date of adoption of the New Scheme by resolution of the Shareholders.
12. An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:
 - (a) the expiry of the Option period;
 - (b) the expiry of the period for exercising the Option as referred to in paragraphs 5(b), (c), (d), (f) or (g) above;
 - (c) subject to the scheme of arrangement referred to in paragraph 5(e) above becoming effective, the expiry of the period for exercising the Option as referred to in paragraph 5(e) above;
 - (d) the date of commencement of the winding up of the Company;
 - (e) the date on which the Grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any other person, over or in relation to any Option in breach of the New Scheme;
 - (f) the date on which the Grantee, if an employee, ceases to be a Participant by reason of the termination of his employment on the grounds that he has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally or has been convicted of any criminal offence involving his integrity or honesty or on any other grounds on which an employer would be entitled to terminate his employment summarily; and

- (g) subject to paragraph 5(b) above, the date the Grantee ceases to be a Participant for any other reason.
13. In the event of any capitalisation of profits or reserves, rights issue, subdivision or consolidation of Shares, reduction of the share capital of the Company whilst any Option remains exercisable, the auditors of the Company shall certify in writing that (i) any corresponding adjustment required to be made to the subscription price or the number of Shares to be issued on exercise of the Options or the method of exercise of the Option is in their opinion fair and reasonable (ii) any such adjustments give the Participant the same proportion of the equity capital of the Company as to which that person was previously entitled and (iii) that no adjustment is made to the extent that a Share will be issued at less than its nominal value. The issue of securities as consideration in a transaction may not be regarded as a circumstance requiring adjustment.
 14. Any Options granted but not exercised may be cancelled if the Grantee so agrees and new Options may be granted to the Grantee provided there are available unissued Options (excluding the cancelled Options) within the limits specified in paragraph 3 above and are otherwise granted in accordance with the terms of the New Scheme.
 15. The Shares issued on exercise of the Options will on issue be identical to the then existing issued Shares of the Company.
 16. The Company by ordinary resolution of Shareholders, or by resolution of the Board, may at any time terminate the operation of the New Scheme and in such event no further Options will be offered or granted under the New Scheme. Any granted but unexercised Options shall continue to be exercisable in accordance with their terms of issue after the termination of the New Scheme.
 17. The Options granted will be personal to the Grantees and will not be transferable or assignable.
 18. Those specific provisions of the New Scheme which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Participants, and no changes to the authority of the Board or scheme administrators in relation to any alteration of the terms shall be made, without the prior approval of Shareholders in general meeting. Any alterations to the terms and conditions of the New Scheme which are of a material nature, or any change to the terms of Options granted, must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the then existing terms of the New Scheme. Any such alterations to the terms of the New Scheme and the Options will have to comply with the Listing Rules then applicable.

II. Restriction on the time of grant of Options

A grant of Options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in newspapers. In particular, during the period commencing one month immediately preceding the earlier of:

- (1) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with paragraph 12 of the listing agreement between the Company and the Stock Exchange) for the approval of the Company's interim or annual results; and
- (2) the deadline for the Company to publish its interim or annual results announcement under the listing agreement between the Company and the Stock Exchange,

and ending on the date of the results announcement, no Option may be granted. The period during which no Option may be granted will cover any period of delay in the publication of a results announcement.

III. Present status of the New Scheme

The adoption of the New Scheme is conditional on:-

- (a) the Shareholders passing an ordinary resolution at the SGM to approve the adoption of the New Scheme; and
- (b) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares to be allotted and issued pursuant to the exercise of the Options granted under the New Scheme up to 10% of the Shares in issue as at the date of the SGM.

If condition (b) above is not satisfied on or before the date following 30 days after the date of adoption of the New Scheme, the New Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the New Scheme.

Application will be made to the Listing Committee of the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the Options granted under the New Scheme.

This is the explanatory statement to provide requisite information to the Shareholders for their consideration of the proposed general mandate to be granted to the Directors to purchase securities of the Company as required by the relevant provision set out in the Listing Rules to regulate the purchase by companies with primary listings on the Stock Exchange of their own securities on the Stock Exchange (“Share Buy Back Rules”).

1. SHARE BUY BACK

The Share Buy Back Rules permit companies whose primary listings are on the Stock Exchange to purchase their shares fully paid-up on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:–

(a) Source of funds

Purchases must be funded out of funds which are legally available for the purpose and in accordance with the memorandum of association and bye-laws of the Company and the Companies Act 1981 of Bermuda (the “Companies Act”). Under the Companies Act, a company may only purchase its securities out of capital paid up on the shares to be purchased or out of the funds of the company which would otherwise be available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose.

Any amount of premium payable on a purchase over the par value of the shares may only be effected out of funds of the company which would otherwise be available for dividend or distribution or out of the company’s share premium account.

Pursuant to the general mandate to purchase Shares, purchase would be funded entirely from the Company’s available cash flow or working capital facilities which will be funds legally available under Bermuda law, the memorandum of association and bye-laws of the Company for the purpose.

(b) Share capital

As at the Latest Practicable Date, the issued ordinary share capital of the Company comprised 16,169,693,317 shares of HK\$0.01 each. On the basis of such figures and subject to the passing of the ordinary resolution for the grant of the mandate to the Directors to purchase Shares at the SGM and assuming no new Shares will be issued and no further Shares will be purchased up to the date of the SGM, the Company would be allowed under the purchase mandate to purchase up to 10 per cent. of the Shares in issue at the date of passing such resolution and with a maximum of 1,616,969,331 Shares.

(c) Connected Parties

No connected person of the Company has notified the Company that he has a present intention to sell any Shares to the Company nor has any such connected person undertaken not to sell any of the Shares held by him to the Company in the event that the resolution for approving the grant of the general mandate to purchase Shares is passed.

2. REASONS FOR THE PURCHASE

The Directors believe that the general mandate to purchase Shares is in the best interests of the Company and its Shareholders. An exercise of the general mandate to purchase Shares may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets per Share and/or earnings per Share and will only be made when the Directors believe that a purchase will benefit the Company and the Shareholders.

An exercise of the general mandate to purchase Shares in full could have a material adverse impact on the working capital and gearing position of the Company compared with that as at 31st March, 2001, being the date of its latest published audited accounts. The Directors do not, however, intend to make any purchase in circumstances that would have a material adverse impact on the working capital or gearing position of the Company.

3. SHARE PRICES

The highest and lowest prices at which the Shares have traded on the Stock Exchange in each of the 12 calendar months preceding the date of this circular were as follows:-

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
July 2001	0.010	0.010
August 2001	0.010	0.010
September 2001	0.010	0.010
October 2001	0.010	0.010
November 2001	0.010	0.010
December 2001	0.010	0.010
January 2002	0.010	0.010
February, 2002	0.010	0.010
March 2002	0.010	0.010
April 2002	0.010	0.010
May 2002	0.010	0.010
June 2002	0.010	0.010

4. DISCLOSURE OF INTERESTS

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their Associates currently intends to sell Shares to the Company or its subsidiaries in the event that the proposed purchase mandate is granted to the Directors by the Shareholders.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the powers of the Company to make purchases pursuant to the general mandate to purchase Shares in accordance with the Listing Rules and the applicable laws of Bermuda.

5. HONG KONG CODES ON TAKEOVERS AND MERGERS AND SHARE PURCHASES

If on the exercise of the power to purchase Shares pursuant to the mandate for purchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increase, such increase will be treated as an acquisition and may give rise to an obligation to make a mandatory offer in accordance with Rule 26 of the Takeover Code. As at the Latest Practicable Date, there are no substantial Shareholders and such increase may not give rise to an obligation to make a mandatory offer under Rule 26 of the Takeover Code. The Directors have no present intention to exercise the mandate for purchase of Shares to such an extent as would result in takeover obligations.

6. SECURITIES PURCHASE MADE BY THE COMPANY

The Company had not purchased any of the Shares (whether on the Stock Exchange or otherwise) during the six calendar months preceding the date of this circular.

RESPONSIBILITY STATEMENT

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

SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following the Completion expected to be, as follows:-

<i>Authorised:</i>		\$
28,500,000,000	ordinary shares of HK\$0.01 each	285,000,000
1,500,000,000	convertible preference shares of HK\$0.01 each	<u>15,000,000</u>
		<u><u>300,000,000</u></u>
 <i>Issued and to be issued as fully paid:</i>		
16,169,693,317	ordinary shares of HK\$0.01 each	161,696,933
708,908,975	convertible preference shares of HK\$0.01 each	7,089,090
600,000,000	Consideration Shares to be issued pursuant to the Agreement (based on HK\$0.01 per Consideration Share)	6,000,000
		<u><u>174,786,023</u></u>

DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which require notification to the Company pursuant to Section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under Section 31 or Part I of the Schedule to the SDI Ordinance) or which are required to be entered

in the register maintained by the Company pursuant to Section 29 of the SDI Ordinance, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Name of director	Number of Shares held	% of issued Share Capital	Number of Existing Options held
Leung Tze Hang, David	308,386,435	1.91%	165,000,000
Law Chuen Lam, Edward	61,437,865	0.38%	115,000,000
Au-Yeung Yok Cho	11,573,125	0.07%	75,000,000
Po Kam Hi, John	161,935,000	1.00%	25,000,000
Lau Cheuk Hung, Terence	88,673	<0.01%	21,000,000

(b) Interest in shares of subsidiary company

Name of subsidiary company	Name of director	Nature of interest	Number of ordinary shares
Total Logistics Services Limited (<i>Note 1</i>)	Po Kam Hi, John	ordinary	4,004,800

Notes:

- Total Logistics Services Limited was an associated corporation, within the meaning of the SDI Ordinance, of the Company. These shares are registered in the name of New Mileage Limited which is wholly-owned by Mr. Po Kam Hi, John.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives, or their Associates had or were deemed to have any interests in any securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which requires notification pursuant to Section 28 of the SDI Ordinance (including interests which any such Director is deemed or taken to have under Section 31 of or Part 1 of the Schedule to the SDI Ordinance) or which is required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which is required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, and none of the Directors and chief executives, or their spouse or children under the age of 18, had any right to subscribe for any securities of the Company, or had exercised any such right.

CONTRACTS

Save for the Agreement and as disclosed in the section headed “Material Interests” in this appendix, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Company or any of its subsidiaries taken as a whole.

SERVICE CONTRACTS

Messrs. Leung Tze Hang, David and Po Kam Hi, John have entered into services agreements with the Company as executive directors. The Company may terminate the agreements by serving twenty-four (24) months’ prior written notice to the respective party.

Save as disclosed above, there are no existing or proposed service contracts between any of the Directors and any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

MATERIAL INTERESTS

As at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been, since the date of the Company’s latest published audited accounts, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group save for:-

- (i) three sale and purchase agreements all dated 30th October 2001 and entered into between Konmore Limited (“Konmore”), a wholly-owned subsidiary of the Company, and each of Messrs. Law Chuen Lam, Edward, Lee Ying Wah, Alfred Augustine, the former alternate Director of Mr. Law Chuen Lam, Edward, and Chan Wing Fai, a former executive Director, (collectively the “Buyers”) pursuant to which Konmore agreed to sell to the Buyers three motor vehicles for a total consideration of HK\$308,000;
- (ii) nine settlement agreements all dated 23rd November 2001 and entered into between the Company and/or certain of its subsidiaries and each of the 9 existing and former Directors of the Company and/or certain of its subsidiaries (collectively “Director Creditors”). Pursuant to the settlement agreements, the Company agreed to issue an aggregate of 1,157,153,492 new Shares at a price of HK\$0.01 each in full and final satisfaction of a total of HK\$11,571,534.92 (“Director Creditors Debt”) due to the Director Creditors by the Group. The Director Creditors Debt comprises salaries, double pay entitlements, reimbursement of expenses, payment in lieu of annual leave (for the period from October 2000 to November 2001) and cash advances made to the Group;

- (iii) a consultancy settlement agreement dated 23rd November 2001 and entered into between the Company and Twinkle Sphere Company Limited (the “Consultant Creditor”), a company which is controlled by Mr. Chan Tin Fu, a former Director of 401 Associates Limited, a wholly-owned subsidiary of the Company. Pursuant to the consultancy settlement agreement, the Company agreed to issue a total of 20,000,000 new Shares at a price of HK\$0.01 each in full and final satisfaction of the HK\$200,000.00 which represents the monthly retainer fee payable to the Consultant Creditor for the period from April, 2001 to August, 2001 by the Company to the Consultant Creditor; and
- (iv) a consultancy agreement dated 23rd November 2001 and entered into between the Company and Finnex Development Limited (“Finnex”), a company in which Mr. Chan Sing Fai is the controlling shareholder and ex-executive Director of the Company, pursuant to which Finnex agrees to provide consultancy services assigned to it by the Board of Directors in consideration for a monthly remuneration of HK\$80,000 per month for a period of six months.
- (v) the Agreement

As at the Latest Practicable Date, neither Somerley nor B.I. Appraisals Limited has any direct or indirect interest in any assets which have been, since the date of the Company’s latest published audited accounts, acquired or disposed of by or leased to any member of the Group or proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, neither Somerley nor B.I. Appraisals Limited has any holding, directly or indirectly, in any securities of the Company or any of its subsidiaries or had any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in the Company or any of its subsidiaries.

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the information available to the Company and so far as is known to the Directors, no person is directly or indirectly interested in 10 per cent, or more of the issued share capital of the Company.

LITIGATION

As at the Latest Practicable Date, save as disclosed below, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries:–

- (i) certain landlords have issued writs and some have obtained judgments against the Group to claim for damages as a result of early termination of tenancy agreements by the Group and outstanding rental in a total sum of approximately HK\$4,053,000;
- (ii) certain employees of the Group have obtained orders at the Labour Tribunal against the Group for outstanding salaries and compensations due to them which amount to approximately HK\$1,111,000; and
- (iii) some creditors have issued writs and some have obtained judgments against the Group for total outstanding debts of HK\$876,000 in respect of miscellaneous service rendered and goods supplied.

MATERIAL CHANGE

As at the Latest Practicable Date, save as disclosed in the interim report of the Company for the six months ended 30th September, 2001, the circular of the Company dated 4th February, 2002 and the announcements of the Company dated 11th January, 2002, 18th February, 2002, 3rd May, 2002, 4th June, 2002 and 10th July, 2002 the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st March, 2001, being the date of the latest published audited consolidated accounts of the Company.

QUALIFICATIONS

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

Name	Qualification
Somerley	Registered investment adviser and exempt dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
B.I. Appraisals Limited	Professional property surveyors and valuers

CONSENTS

Somerley and B.I. Appraisals Limited have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion herein of their respective letters and report (as the case may be) and references to their respective names, in the forms and context in which they respectively appear.

OTHER INFORMATION

- (a) The registered office of the Company is situated at Cedar House, 41 Cedar Avenue, Hamilton, HM12, Bermuda.
- (b) The branch share registrar and transfer office of the Company in Hong Kong is Tengis Limited of 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (c) The secretary of the Company is Keung Shu Hoi, a practising solicitor in Hong Kong.
- (d) The English version of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at Units 2204-5, 22/F., West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong from the date of this circular up to and including 12th August, 2002:–

- (a) the Agreement;
- (b) the service contracts referred to in the section headed “Service Contracts” in Appendix II of this circular;
- (c) the New Scheme;
- (d) consent letter from Somerley;
- (e) consent letter from B.I. Appraisals Limited;
- (f) the Valuation Report;
- (g) annual report of the Company for the year 2001;
- (h) interim report of the Company for the six months ended 30th September, 2001; and
- (i) Memorandum of association and Bye-laws of the Company.

NOTICE OF SPECIAL GENERAL MEETING



401 Holdings Limited

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a Special General Meeting of 401 Holdings Limited (the “Company”) will be held at Function Room, Basement, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on Monday, 12th August, 2002, at 9:30 a.m., for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

(1) **“THAT**

- (a) the agreement dated 28th May, 2002 (the “Agreement”) between the Company, SIIC Finance Company Limited and Onelink Investment Limited, a wholly-owned subsidiary of the Company (“Onelink”) (copy of which has been produced to the meeting marked “A” and signed for identification by the Chairman thereof) pursuant to which Onelink has agreed to acquire the Property (as defined in the Agreement) for the consideration of HK\$15,000,000 which shall be satisfied by the Company by (i) the payment of HK\$4,000,000 in cash (ii) the issue and allotment of ordinary shares of HK\$0.01 each in the share capital of the Company (“Share”) with an aggregate value of HK\$6,000,000 based on a value per Share as set out in the Agreement (“Consideration Shares”) and (iii) the issue of convertible bond in an aggregate principal amount of HK\$5,000,000 the terms and conditions of which are set out in the Agreement (“Convertible Bond”) and the transactions contemplated under the Agreement be and are hereby approved; and
- (b) the directors of the Company be and are hereby authorised to issue the Convertible Bond and to allot and issue the Consideration Shares and the Shares to be issued upon conversion of the Convertible Bond.”

- (2) **“THAT** conditional on the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval of the listing of and permission to deal in the shares to be issued pursuant to the exercise of any options granted under the share option scheme of the Company in the form produced before this meeting and for the purpose of identification marked “B” and signed by the Chairman of the meeting (“Share Option Scheme”) up to 10% of the Shares in issue as at the date of passing this resolution, the Share Option Scheme be and is hereby approved and adopted and the directors of the Company be and are hereby authorised to grant options, and to allot and issue shares pursuant to the exercise of any options granted, under the Share Option Scheme.”

NOTICE OF SPECIAL GENERAL MEETING

(3) **“THAT:**

- (a) subject to paragraph 3(c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the Directors be and are authorised during the Relevant Period to make or grant offers, agreements and options (including warrants, bonds and debentures convertible into shares of the Company) which might require the exercise of such powers during or after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in paragraph 3(a) and (b), otherwise than pursuant to a Rights Issue (as hereinafter defined) or pursuant to the exercise of any options granted under the share option scheme adopted by the Company or an issue of shares upon the exercise of subscription rights attached to the warrants which might be issued by the Company or an issue of shares in lieu of the whole or part of a dividend on shares or any scrip dividend scheme or similar arrangement in accordance with the articles of association of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution; and
- (d) for the purposes of this resolution:

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum of association and Bye-Laws of the Company or any applicable law of Bermuda to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.

NOTICE OF SPECIAL GENERAL MEETING

“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange).”

(4) **“THAT:**

- (a) subject to paragraph 4(c) below, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase issued shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, and that the exercise by the Directors of all powers of the Company to purchase such securities are subject to and in accordance with all applicable laws, be and is hereby, generally and unconditionally approved;
- (b) the approval in paragraph 4(a) shall be in addition to any other authorisation given to the directors of the Company and shall authorise the directors of the Company on behalf of the Company during the Relevant Period to procure the Company to purchase its shares at a price determined by the directors of the Company;
- (c) the aggregate nominal amount of share capital of the Company purchased or agreed conditionally or unconditionally to be purchased by the Company pursuant to the approval in paragraph 4(a) during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution; and
- (d) for the purposes of this resolution:

“Relevant Period” means the period from the time of the passing of this resolution until whichever is the earliest of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the memorandum of association and Bye-Laws of the Company or any applicable law of Bermuda to be held; and
- (iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the shareholders of the Company in general meeting.”

NOTICE OF SPECIAL GENERAL MEETING

- (5) “**THAT** conditional upon the passing of the ordinary resolutions numbered (3) and (4) in the notice convening the meeting dated 22nd July, 2002, the aggregate nominal amount of the shares in the capital of the Company which are purchased by the Company pursuant to and in accordance with the said resolution numbered (4) shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to and in accordance with the resolution numbered (3) set out in the notice of the meeting dated 22nd July, 2002.”

By Order of the Board
401 Holdings Limited
Leung Tze Hang, David
Managing Director

22nd July, 2002

Notes:

1. Any member of the Company entitled to attend and vote at the meeting shall be entitled to appoint another person as his proxy to attend and, on a poll, vote instead of him. A member may appoint more than one proxy to attend on the same occasion. A proxy need not be a member of the Company.
2. A form of proxy for use at the above meeting is enclosed herewith.
3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority must be deposited at the head office and principal place of business of the Company in Hong Kong at Units 2204-5, 22nd Floor, West Tower, Shun Tak Centre, 200 Connaught Road Central, Hong Kong not less than 48 hours before the time for holding the meeting or any adjourned meeting, in default of which the instrument of proxy shall not be treated as valid.