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## **THE KWONG SANG HONG INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

*Executive Directors:*

Thomas Lau, Luen-hung (*Chairman*)  
Joseph Lau, Luen-hung  
Simon Lo, Lin-shing  
Wilson Cheng, Kam-biu

*Non-executive Directors:*

Gerald To, Hin-tsun  
Alan Lam, Man-bun\*  
Donald Koo, Hoi-yan\*

\* *Independent Non-executive Director*

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*Principal Office in Hong Kong:*

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MassMutual Tower  
38 Gloucester Road  
Wanchai  
Hong Kong

28th March, 2003

*To the Shareholders*

Dear Sir or Madam,

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

#### **INTRODUCTION**

The purpose of this document is to give you information regarding the following resolutions to be proposed at the annual general meeting of the Company to be held at the Concord Room 2-3, 8th Floor, Renaissance Harbour View Hotel Hong Kong, 1 Harbour Road, Wanchai, Hong Kong on Wednesday, 23rd April, 2003 at 10:00 a.m. (the “Annual General Meeting”) to enable Shareholders to make an informed decision on whether to vote for or against the resolutions.

The resolutions include (i) granting to the Directors a general and unconditional mandate to repurchase shares in the capital of the Company up to 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the resolution (the “Repurchase Mandate”); and (ii) granting to the Directors a general and unconditional mandate (a) to issue further shares representing up to 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the resolution and (b) to issue shares not exceeding the aggregate nominal amount of share capital so repurchased pursuant to the Repurchase Mandate.

## **GENERAL MANDATE TO REPURCHASE SHARES**

At the Annual General Meeting, an ordinary resolution will be proposed to grant to the Directors a general and unconditional mandate to exercise all powers of the Company to repurchase issued shares in the capital of the Company subject to the criteria set out in this document. In particular, Shareholders should note that the maximum number of shares that may be repurchased pursuant to the Repurchase Mandate will be such number which represents 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the resolution subject to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The Repurchase Mandate will end on the earliest of the date of the next annual general meeting, the date by which the next annual general meeting of the Company is required to be held by law or the Company's Bye-laws, and the date upon which such authority is revoked or varied by ordinary resolution of the Company in general meeting.

In accordance with the Listing Rules, the Company is required to send to Shareholders an explanatory statement which is set out in the Appendix of this document.

## **GENERAL MANDATES TO ISSUE SHARES**

At the Annual General Meeting, an ordinary resolution will be proposed to grant to the Directors a general and unconditional mandate to issue further shares representing up to 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the resolution.

Subject to the passing of the aforesaid ordinary resolutions of the Repurchase Mandate and general mandate to issue shares, an ordinary resolution will also be proposed to authorise the Directors to issue shares in the capital of the Company in the amount not exceeding the aggregate nominal amount of the shares in the capital of the Company purchased pursuant to the Repurchase Mandate.

## **RECOMMENDATION**

As at 24th March, 2003, being the latest practicable date prior to printing of this document (the "Latest Practicable Date"), Power Jade Capital Limited (Corporate name: Power Jade Limited) held approximately 53.52% of the issued share capital of the Company. The Directors of the Company are of the opinion that the Repurchase Mandate and the general mandates to issue shares are in the best interests of the Company and recommend you to vote in favour of the relevant resolutions to be proposed at the Annual General Meeting. Power Jade Capital Limited intends to vote in favour of all the resolutions to be proposed at the Annual General Meeting.

Yours faithfully,  
**Thomas Lau, Luen-hung**  
*Chairman*

## 1. SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company was 959,899,416 shares of HK\$0.40 each (the “Shares”).

Subject to the passing of the ordinary resolution granting the Repurchase Mandate and on the basis that no further Shares are issued or repurchased prior to the Annual General Meeting, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 95,989,941 Shares, being 10% of the entire issued share capital of the Company.

## 2. REASONS FOR REPURCHASES

The Directors believe that the Repurchase Mandate is in the best interests of the Company and its Shareholders. Whilst it is not possible to anticipate in advance any specific circumstance in which the Directors might think it appropriate to repurchase Shares, they believe that an ability to do so would give the Company additional flexibility that would be beneficial to the Company and its Shareholders as such repurchases may, depending on market conditions and funding arrangements at that time, lead to an enhancement of the net asset value per Share and/or earnings per Share. Shareholders can be assured that the Directors would only make such purchases in circumstances where they consider them to be in the best interests of the Company.

## 3. FUNDING OF REPURCHASES

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its Memorandum of Association and Bye-laws and the laws of Bermuda. The laws of Bermuda provide that the amount of capital repaid in connection with a share repurchase may only be paid out of either the capital paid up on the relevant shares, or the profits that would otherwise be available for distribution by way of dividend or the proceeds of a fresh issue of shares made for the purpose. The amount of premium payable on repurchase may only be paid out of either the profits that would otherwise be available for distribution by way of dividend or out of the share premium or contributed surplus accounts of the company. Should the Directors consider it desirable, they would be able to finance the purchase out of funds borrowed against any of the above-mentioned accounts. In addition, under the laws of Bermuda, in connection with any purchase of shares, two directors of the company would be required to swear an affidavit either on the date on which the repurchase takes effect or within 30 days after the end of each calendar quarter to the effect that either the company is solvent or that all creditors of the company have agreed to the purchase. In accordance with the laws of Bermuda, the shares so repurchased would be treated as cancelled but the aggregate amount of authorised share capital would not be reduced.

On the basis of the consolidated financial position of the Company as at 30th November, 2002 (being the date to which the latest published audited financial statements of the Company have been made up) and in particular the working capital position of the Company at that time and the number of Shares now in issue, the Directors consider that there might be a material adverse impact on the working capital position or the gearing position of the Company in the event that purchases of all the Shares the subject of the Repurchase Mandate were to be carried out in full during the Repurchase Mandate period. No purchase would be made in circumstances that would have a material adverse impact on the working capital position or the gearing position of the Company (as compared with the position disclosed in the latest published audited financial statements).

#### 4. SHARE PRICES

The highest and lowest prices at which the Shares traded on the Stock Exchange during each of the previous twelve months before the printing of this document are as follows:

	Price per Share	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
<b>2002</b>		
March	0.260	0.240
April	0.248	0.230
May	0.260	0.234
June	0.245	0.230
July	0.232	0.178
August	0.153	0.121
September	0.205	0.162
October	0.180	0.140
November	0.198	0.157
December	0.190	0.172
<b>2003</b>		
January	0.200	0.170
February	0.210	0.185

#### 5. UNDERTAKING

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 repurchases pursuant to the Repurchase Mandate and in accordance with the Listing Rules, the Memorandum of Association and Bye-laws of the Company and the laws of Bermuda.

None of the Directors nor, to the best of their knowledge and belief having made all reasonable enquiries, their associates have any present intention to sell any Shares to the Company in the event that the Repurchase Mandate is approved by the Shareholders.

No connected persons (as defined in the Listing Rules) have notified the Company that they have a present intention to sell Shares to the Company or its subsidiaries, or have undertaken not to do so, in the event that the Repurchase Mandate is granted by the Shareholders.

#### 6. HONG KONG CODE ON TAKEOVERS AND MERGERS

If a Shareholder's proportionate interest in the voting capital of the Company increases as a result of a share repurchase, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Code") and, if such increase results in a change of control, may in certain circumstances give rise to an obligation to make a general offer for shares under Rule 26 of the Code.

As at the Latest Practicable Date, to the best knowledge and belief of the Company, Power Jade Capital Limited held approximately 53.52% of the issued share capital of the Company. In the event that the Repurchase Mandate is exercised in full, the shareholding in the Company held by Power Jade Capital Limited would be increased to approximately 59.47% of the issued share capital of the Company. The Directors believe that such an increase would not give rise to an obligation to make a mandatory offer under the Code.

#### **7. SHARE REPURCHASES MADE BY THE COMPANY**

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