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

If you have sold all your shares in The Kwong Sang Hong International Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser or to the bank, licensed securities dealer or other agents through whom the sale was effected for transmission to the purchaser.

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**THE KWONG SANG HONG INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**Stock Code: 189**

**PROPOSED PRIVATISATION OF  
THE KWONG SANG HONG INTERNATIONAL LIMITED  
BY POWER JADE LIMITED  
(TRADING AS POWER JADE CAPITAL LIMITED)  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 99 OF THE COMPANIES ACT 1981 OF BERMUDA (AS AMENDED)  
AT THE CANCELLATION PRICE OF HK\$1.25 PER SCHEME SHARE**

**Financial adviser to Power Jade**



**Financial adviser to KSH**



元富證券(香港)有限公司  
**MasterLink Securities (Hong Kong)  
Corporation Limited**

**Independent financial adviser to the Independent Board Committee**



A letter from the board of directors of The Kwong Sang Hong International Limited is set out on pages 7 to 11 of this document. An explanatory statement regarding the Proposal (as defined herein) is set out on pages 34 to 45 of this document. A letter from the Independent Board Committee (as defined herein) containing its advice to the KSH Independent Shareholders (as defined herein) in relation to the Proposal is set out on page 12 of this document. A letter from Somerley (as defined herein) containing its advice to the Independent Board Committee in relation to the Proposal is set out on pages 13 to 33 of this document.

The action to be taken by the KSH Shareholders (as defined herein) is set out on pages 44 and 45 of this document.

Notices convening the Court Meeting (as defined herein) and the Special General Meeting (as defined herein) to be held on 5th January, 2005 are set out on pages 134 and 137 of this document. Whether or not you are able to attend the Meetings (as defined herein) in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the Special General Meeting in accordance with the instructions printed thereon and to lodge them with the Hong Kong branch share registrar of The Kwong Sang Hong International Limited, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible but in any case not later than 10:00 a.m. on 3rd January, 2005 for the pink form of proxy in respect of the Court Meeting and 10:30 a.m. on 3rd January, 2005 for the white form of proxy in respect of the Special General Meeting. In the case of the pink form of proxy in respect of the Court Meeting, it may be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged.

This document is issued by The Kwong Sang Hong International Limited.

13th December, 2004

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## SUMMARY

This document contains details of the proposal by Power Jade to privatise KSH.

Under the Proposal, each Scheme Shareholder is being offered:

**FOR EACH SCHEME SHARE ..... HK\$1.25 IN CASH**

This represents:

- a premium of approximately 3.31% over the closing price of HK\$1.21 per KSH Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 5.04% over the closing price of HK\$1.19 per KSH Share as quoted on the Stock Exchange on 1st November, 2004 (being the last trading day prior to the suspension of trading in the KSH Shares pending the issue of the Announcement);
- a premium of approximately 23.03% over the average closing price of approximately HK\$1.016 per KSH Share based on the daily closing prices as quoted on the Stock Exchange over the 10 consecutive trading days up to and including 1st November, 2004;
- a premium of approximately 36.17% over the average closing price of approximately HK\$0.918 per KSH Share based on the daily closing prices as quoted on the Stock Exchange over the 30 consecutive trading days up to and including 1st November, 2004;
- a premium of approximately 52.63% over the average closing price of approximately HK\$0.819 per KSH Share based on the daily closing prices as quoted on the Stock Exchange over the 60 consecutive trading days up to and including 1st November, 2004;
- a discount of approximately 6.72% to the unaudited consolidated net tangible asset value (as published in the interim report of KSH for the six months ended 31st May, 2004) per KSH Share of approximately HK\$1.34 as at 31st May, 2004; and
- a discount of approximately 6.72% to the proforma adjusted unaudited consolidated net tangible asset value per KSH Share of approximately HK\$1.34 as set out in Appendix I to this document.

As at the Latest Practicable Date, there were 959,899,416 KSH Shares in issue and the Scheme Shareholders were interested in 446,153,369 KSH Shares, representing approximately 46.48% of the issued share capital of KSH. Upon the completion of the Proposal, the authorised and issued share capital of KSH will be reduced by cancelling and extinguishing the Scheme Shares. In addition, KSH will become a wholly-owned subsidiary of Power Jade and the listing of the KSH Shares on the Stock Exchange will be withdrawn.

The Proposal is conditional upon the fulfillment or waiver of, as applicable, the Conditions as further described in the paragraph headed “Conditions of the Proposal” in the Explanatory Statement on pages 35 and 36 of this document. All Conditions will have to be fulfilled or waived, as applicable, on or before 31st March, 2005 (or such later date as Power Jade and KSH may agree or as the Supreme Court may direct).

The detailed terms and conditions of the Proposal, and the advices of the Independent Board Committee and Somerley are set out in this document, which you are urged to read carefully.

## DEFINITIONS

*In this document, the following expressions have the following meanings, unless the context otherwise requires:*

|                         |   |
|-------------------------|---|
| “acting in concert”     | has the meaning ascribed to it under the Takeovers Code   |
| “associate”             | has the meaning ascribed to it under the Listing Rules  |
| “Announcement”          | the announcement dated 4th November, 2004 issued jointly by KSH and Power Jade relating to the Proposal   |
| “Authorisation(s)”      | all necessary authorisations, registrations, filing, rulings, consents, permissions and approvals in connection with the Proposal   |
| “Branch Registrar”      | Computershare Hong Kong Investor Services Limited, the branch share registrar of KSH in Hong Kong   |
| “Cancellation Price”    | HK\$1.25 in cash per Scheme Share   |
| “Chinese Estates”       | Chinese Estates Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which (stock code: 127) are listed on the Stock Exchange, and as at the Latest Practicable Date was indirectly interested in 50% of the issued capital of Power Jade. Mr. Joseph Lau, Luen-hung is deemed to be interested in approximately 62.81% of the issued share capital of Chinese Estates as at the Latest Practicable Date |
| “Chinese Estates Group” | Chinese Estates and its subsidiaries  |
| “Companies Act”         | the Companies Act 1981 of Bermuda (as amended)  |
| “Conditions”            | the conditions to which the Proposal is subject, which are set out in the paragraph headed “Conditions of the Proposal” in the Explanatory Statement on pages 35 and 36 of this document  |
| “Court Meeting”         | a meeting of the KSH Independent Shareholders, to be held at Concord Room 2-3, 8th Floor, Renaissance Harbour View Hotel, No. 1 Harbour Road, Wanchai, Hong Kong, on Wednesday, 5th January, 2005 at 10:00 a.m. convened at the direction of the Supreme Court at which the Scheme will be voted upon, notice of which is set out on pages 134 and 135 of this document, or any adjournment thereof   |
| “Effective Date”        | the date on which the Scheme, if approved, becomes effective in accordance with the Scheme  |
| “Explanatory Statement” | the explanatory statement set out on pages 34 to 45 of this document in compliance with Section 100 of the Companies Act  |
| “Good System”           | Good System Investment Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Chinese Estates, and was as at the Latest Practicable Date interested in approximately 7.60% of the issued KSH Shares   |

## DEFINITIONS

|                                |  |
|--------------------------------|--|
| “Hong Kong”                    | the Hong Kong Special Administrative Region of the People’s Republic of China  |
| “Independent Board Committee”  | the independent committee of the KSH Board, comprising Messrs. Alan Lam, Man-bun, Matthew Hui, Chuen-fan and William Tsui, Hing-chuen and Ms. Phillis Loh, Lai-ping, being the independent non-executive KSH Directors, which has been established for the purpose of advising the KSH Independent Shareholders in relation to the Proposal      |
| “KSH”                          | THE KWONG SANG HONG INTERNATIONAL LIMITED, an exempted company incorporated in Bermuda with limited liability, the shares of which (stock code: 189) are listed on the Stock Exchange  |
| “KSH Board”                    | board of KSH Directors   |
| “KSH Director(s)”              | director(s) of KSH   |
| “KSH Group”                    | KSH and its subsidiaries   |
| “KSH Independent Shareholders” | KSH Shareholders other than Power Jade, Good System and any of their respective associates and parties acting in concert with any of them  |
| “KSH Share(s)”                 | share(s) of par value of HK\$0.40 each in the ordinary share capital of KSH  |
| “KSH Shareholder(s)”           | holder(s) of the KSH Share(s)  |
| “Latest Practicable Date”      | 9th December, 2004, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein   |
| “Listing Rules”                | the Rules Governing the Listing of Securities on the Stock Exchange  |
| “MasterLink”                   | MasterLink Securities (Hong Kong) Limited, a licensed corporation to engage in type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) of the regulated activities under the SFO, being the financial adviser to KSH in connection with the Proposal  |
| “Meeting(s)”                   | the Court Meeting and the Special General Meeting or either of them, as the case may be  |
| “Ms. Anita Shum”               | Ms. Anita Shum, Yuk-ming, who is indirectly interested in 50% of the issued capital of Power Jade through Solar Chain as at the Latest Practicable Date  |
| “Norton Appraisals”            | Norton Appraisals Limited, an independent professional property valuers  |
| “Power Jade”                   | Power Jade Limited (trading as Power Jade Capital Limited), a company incorporated in the British Virgin Islands with limited liability and is owned as to 50% indirectly by Chinese Estates and as to 50% directly by Solar Chain. Power Jade was interested in approximately 53.52% of the issued KSH Shares as at the Latest Practicable Date |
| “Proposal”                     | the proposal for the privatisation of KSH by Power Jade by way of the Scheme   |

## DEFINITIONS

|                           |  |
|---------------------------|--|
| “Record Time”             | 4:30 p.m. on Thursday, 20th January, 2005, or such other date as shall have been announced to the KSH Shareholders for determining their entitlements under the Scheme   |
| “Register”                | the register of members of KSH   |
| “Relevant Authorities”    | appropriate government and/or governmental bodies, regulatory bodies, courts or institutions   |
| “Scheme”                  | a scheme of arrangement between KSH and the Scheme Shareholders under Section 99 of the Companies Act involving cancellation and extinguishment of all the Scheme Shares, as set out on pages 129 to 133 of this document, with or subject to any modification thereof or addition thereto or condition(s) approved or imposed by the Supreme Court  |
| “Scheme Share(s)”         | KSH Share(s) held by the Scheme Shareholder(s)   |
| “Scheme Shareholder(s)”   | holder(s) of the KSH Share(s) other than Power Jade  |
| “SFO”                     | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)  |
| “Solar Chain”             | Solar Chain Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by Ms. Anita Shum  |
| “Sommerley”               | Sommerley Limited, a corporation deemed licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO, being the independent financial adviser to the Independent Board Committee   |
| “Special General Meeting” | the special general meeting of KSH, to be held at Concord Room 2-3, 8th Floor, Renaissance Harbour View Hotel, No. 1 Harbour Road, Wanchai, Hong Kong, on Wednesday, 5th January, 2005 at 10:30 a.m. (or so soon thereafter as the Court Meeting convened for the same day and place at 10:00 a.m. shall have been concluded (or concluded after any adjournment thereof)) for the approval and implementation of the Scheme, notice of which is set out on pages 136 and 137 of this document, or any adjournment thereof |
| “Stock Exchange”          | The Stock Exchange of Hong Kong Limited  |
| “Supreme Court”           | the Supreme Court of Bermuda   |
| “Tai Fook”                | Tai Fook Capital Limited, a licensed corporation to engage in type 6 (advising on corporate finance) of the regulated activity (as defined in the SFO), being the financial adviser to Power Jade in connection with the Proposal  |
| “Takeovers Code”          | The Hong Kong Code on Takeovers and Mergers  |
| “HK\$”                    | Hong Kong dollars, the lawful currency of Hong Kong  |
| “%”                       | per cent.  |

|                           |
|---------------------------|
| <b>EXPECTED TIMETABLE</b> |
|---------------------------|

*Hong Kong time*

Latest time for lodging transfers of the KSH Shares to qualify for attending and voting at the Court Meeting and the Special General Meeting ..... 4:00 p.m. on Thursday, 30th December, 2004

Closure of the Register for determination of entitlements of the KSH Independent Shareholders to attend and vote at the Court Meeting and the KSH Shareholders to attend and vote at the Special General Meeting ..... to Wednesday, 5th January, 2005  
 Friday, 31st December, 2004  
 (both days inclusive)

2005

Latest time for lodging forms of proxy in respect of:  
 Court Meeting (*Note 1*) ..... 10:00 a.m. on Monday, 3rd January

Special General Meeting (*Note 1*) ..... 10:30 a.m. on Monday, 3rd January

Suspension of dealings in the KSH Shares ..... 9:30 a.m. on Wednesday, 5th January

Court Meeting ..... 10:00 a.m. on Wednesday, 5th January

Special General Meeting ..... 10:30 a.m. on Wednesday, 5th January

Press announcement of the results of the Meetings in The Standard and the Hong Kong Economic Times ..... Thursday, 6th January

Resumption of dealings in the KSH Shares ..... 9:30 a.m. on Thursday, 6th January

Supreme Court hearing of the petition to sanction the Scheme (*Note 2*) ..... Friday, 14th January

Last day for dealings in the KSH Shares ..... Monday, 17th January

Latest time for lodging transfers of the KSH Shares to qualify for the Cancellation Price under the Scheme ..... 4:00 p.m. on Thursday, 20th January

Record Time ..... 4:30 p.m. on Thursday, 20th January

Effective Date (*Note 3*) ..... Friday, 21st January

Press announcement on the Effective Date and withdrawal of listing of the KSH Shares in The Standard and the Hong Kong Economic Times ..... Monday, 24th January

Withdrawal of the listing of the KSH Shares on the Stock Exchange becomes effective (*Note 3*) ..... 9:30 a.m. on Monday, 24th January

Cheques for cash payment under the Scheme to be despatched on or before ..... Monday, 31st January

## EXPECTED TIMETABLE

**The KSH Shareholders should note that the above timetable is subject to change.**

**Further announcement(s) will be made in the event that there is any such change.**

*Notes:*

1. Forms of proxy should be lodged with the Branch Registrar at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and by the times and dates stated above. In the case of the pink forms of proxy in respect of the Court Meeting, they may be handed to the chairman of the Court Meeting at the Court Meeting if they are not so lodged. In order to be valid, the white forms of proxy for the Special General Meeting must be lodged not later than the time and date stated above. Completion and return of a form of proxy for the Court Meeting or the Special General Meeting will not preclude a KSH Shareholder from attending the relevant Meetings and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.
2. All references in this document to times and dates are references to Hong Kong times and dates, other than the reference to the expected date for the Supreme Court hearing of the petition to sanction the Scheme, which is a reference to the relevant date in Bermuda. For the period from 1st November, 2004 to 2nd April, 2005, Bermuda time is twelve hours behind Hong Kong time.
3. The Scheme will become effective when it is sanctioned (with or without modification) by the Supreme Court and an office copy of the Supreme Court order is delivered to the Registrar of Companies in Bermuda for registration and is registered. Registration is expected to take place in the morning on Friday, 21st January, 2005 (Bermuda time) (which will be the evening on Friday, 21st January, 2005 (Hong Kong time)). However, in the event that not all of the Conditions have been fulfilled (or, as applicable, waived) by Friday, 14th January, 2005, being the proposed date of the Supreme Court hearing of the petition to sanction the Scheme, the timetable of events thereafter will be subject to change. KSH Independent Shareholders should note the Conditions set out on pages 35 and 36 of this document.



## LETTER FROM THE KSH BOARD



### THE KWONG SANG HONG INTERNATIONAL LIMITED

*(Incorporated in Bermuda with limited liability)*

**Stock Code: 189**

*Executive Directors:*

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

*Registered Office:*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Non-executive Directors:*

Gerald To, Hin-tsun  
Loretta Lau, Suk-han

*Principal place of business*

*in Hong Kong:*  
26th Floor, MassMutual Tower  
38 Gloucester Road, Wanchai  
Hong Kong

*Independent Non-executive Directors:*

Alan Lam, Man-bun  
Phillis Loh, Lai-ping  
Matthew Hui, Chuen-fan  
William Tsui, Hing-chuen

13th December, 2004

*To the KSH Shareholders*

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF  
THE KWONG SANG HONG INTERNATIONAL LIMITED  
BY POWER JADE LIMITED  
(TRADING AS POWER JADE CAPITAL LIMITED)  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 99 OF THE COMPANIES ACT  
AT THE CANCELLATION PRICE OF HK\$1.25 PER SCHEME SHARE**

#### INTRODUCTION

As stated in the Announcement, Power Jade, a company owned as to 50% indirectly by Chinese Estates and as to 50% directly by Solar Chain, requested the KSH Board to put forward a proposal to the Scheme Shareholders regarding a proposed privatisation of KSH by way of the Scheme involving the cancellation of all the Scheme Shares at the Cancellation Price of HK\$1.25 per Scheme Share, upon completion of which the listing of the KSH Shares on the Stock Exchange will be withdrawn and KSH will become a wholly-owned subsidiary of Power Jade.

It is the intention of Power Jade to maintain the existing businesses of the KSH Group, including property development, sales of properties, property leasing, manufacturing and trading in cosmetic products, upon the successful privatisation of KSH.

## LETTER FROM THE KSH BOARD

As at the Latest Practicable Date, there were 959,899,416 KSH Shares in issue and Power Jade was interested in 513,746,047 KSH Shares, representing approximately 53.52% of the issued share capital of KSH, and the Scheme Shareholders were interested in 446,153,369 KSH Shares, representing approximately 46.48% of the issued share capital of KSH.

The Proposal, if made, will be subject to, among other things, approval of the Scheme by the KSH Independent Shareholders at the Court Meeting. Given that Good System is a wholly-owned subsidiary of Chinese Estates which has an indirect interest in Power Jade, Good System is regarded as a party acting in concert with Power Jade and therefore both of them and any of their respective associates and parties acting in concert with them will not be entitled to vote on the Scheme at the Court Meeting. The KSH Shares held by Power Jade will not form part of the Scheme Shares but the KSH Shares held by Good System will form part of the Scheme Shares. As at the Latest Practicable Date, Good System was interested in 72,926,000 KSH Shares, representing approximately 7.60% of the issued share capital of KSH.

Power Jade and Good System have indicated that if the Proposal is approved at the Court Meeting, they will vote or will procure the voting of their beneficial interests in KSH in favour of the special resolution to be proposed at the Special General Meeting to be convened following the Court Meeting to approve and give effect to the Proposal (including the cancellation of the Scheme Shares and the reduction of the authorised and issued share capital of KSH).

Upon the Scheme becoming effective, the authorised and issued share capital of KSH will be reduced by cancelling and extinguishing the Scheme Shares. In addition, KSH will become a wholly-owned subsidiary of Power Jade and the listing of the KSH Shares on the Stock Exchange will be withdrawn.

Power Jade has appointed Tai Fook as its financial adviser in connection with the Proposal whilst KSH has appointed MasterLink as its financial adviser.

The KSH Board comprises ten directors, of whom four are executive directors, two are non-executive directors and the remaining four are independent non-executive directors. The four executive directors are Messrs. Thomas Lau, Luen-hung, Joseph Lau, Luen-hung, Simon Lo, Lin-shing and Wilson Cheng, Kam-biu. The two non-executive directors are Mr. Gerald To, Hin-tsun and Ms. Loretta Lau, Suk-han and the four independent non-executive directors are Messrs. Alan Lam, Man-bun, Matthew Hui, Chuen-fan and William Tsui, Hing-chuen and Ms. Phillis Loh, Lai-ping.

Of the four executive KSH Directors and two non-executive KSH Directors:

- (a) Messrs. Thomas Lau, Luen-hung and Joseph Lau, Luen-hung are also directors of Power Jade;
- (b) Mr. Simon Lo, Lin-shing is also the deputy chairman and an executive director of Tai Fook Securities Group Limited, the beneficial owner of Tai Fook which is the financial adviser to Power Jade;
- (c) Mr. Wilson Cheng, Kam-biu is the brother-in-law of Ms. Anita Shum, the sole beneficial owner of Solar Chain which holds 50% interest in Power Jade;
- (d) Mr. Gerald To, Hin-tsun is a senior partner of a law firm which provides legal advice to KSH from time to time; and
- (e) Ms. Loretta Lau, Suk-han is a partner of a law firm which acts as legal advisers to Chinese Estates, the beneficial owner with an indirect interest of 50% in Power Jade, in respect of certain corporate transactions.

## LETTER FROM THE KSH BOARD

For the above reasons, they are not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the KSH Independent Shareholders on the Proposal.

As a result, Messrs. Alan Lam, Man-bun, Matthew Hui, Chuen-fan and William Tsui, Hing-chuen and Ms. Phillis Loh, Lai-ping, being the independent non-executive KSH Directors, have been appointed by the KSH Board as members of the Independent Board Committee to make a recommendation to the KSH Independent Shareholders regarding the Proposal. Somerley has been appointed by KSH as the independent financial adviser to advise the Independent Board Committee in connection with the Proposal.

The purpose of this document is to provide you with further information regarding the Proposal and to give you notices of the Court Meeting and the Special General Meeting. Your attention is also drawn to the letter from the Independent Board Committee, the letter from Somerley, the Explanatory Statement and the Scheme, all of which form part of this document.

### SUMMARY OF THE PROPOSAL

It is proposed that, subject to the Conditions being fulfilled or waived (as applicable), the Proposal will be implemented by way of the Scheme, which will involve the cancellation and extinguishment of all the Scheme Shares and a reduction of the authorised and issued share capital of KSH under Section 46 of the Companies Act. The Scheme also provides that, in consideration of such cancellation and extinguishment, the Scheme Shareholders whose names appear on the Register at the Record Time will be entitled to receive the Cancellation Price of HK\$1.25 in cash from Power Jade for each Scheme Share held.

Payment of the Cancellation Price will be effected by way of cheque and implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right which Power Jade may have or claim to have against any Scheme Shareholders.

As at the Latest Practicable Date, there were 959,899,416 KSH Shares in issue and the Scheme Shareholders were interested in 446,153,369 KSH Shares, representing approximately 46.48% of the issued share capital of KSH. KSH did not have any outstanding options, warrants or convertible securities as at the Latest Practicable Date.

On the basis of the Cancellation Price and a total of 959,899,416 KSH Shares in issue as at the Latest Practicable Date, the Proposal values the entire issued share capital of KSH at about HK\$1.20 billion. The amount of cash required in order to effect the Proposal is approximately HK\$557.7 million. Tai Fook, the financial adviser to Power Jade, is satisfied that Power Jade has sufficient financial resources for the implementation of the Proposal.

The Proposal will become effective and binding on KSH and all Scheme Shareholders, provided that the Conditions are fulfilled or, where applicable, waived. The Conditions are set out in the section headed ‘‘Conditions of the Proposal’’ in the Explanatory Statement on pages 35 and 36 of this documents.

The Proposal will lapse if the Scheme does not become effective on or before 31st March, 2005 (or such later date as Power Jade and KSH may agree or as the Supreme Court may direct) and the Scheme Shareholders will be notified accordingly by press announcement. Further announcements regarding the Proposal will be made as and when appropriate.

Assuming that the Scheme becomes effective on Friday, 21st January, 2005 (Bermuda time), cheques for the Cancellation Price under the Scheme are expected to be despatched to the Scheme Shareholders whose names appear on the Register at the Record Time on or before Monday, 31st January, 2005.

## LETTER FROM THE KSH BOARD

### SHAREHOLDING STRUCTURE OF KSH BEFORE AND AFTER THE PROPOSAL

The table below sets out the shareholding structure of KSH as at the Latest Practicable Date and immediately following completion of the Proposal:

| Shareholders | As at the<br>Latest Practicable Date |            | Immediately following<br>completion of the Proposal |            |
|--------------|--------------------------------------|------------|---|------------|
|              | Number of<br>KSH Shares              | %          | Number of<br>KSH Shares                             | %          |
| Power Jade   | 513,746,047                          | 53.52      | 513,746,047   | 100        |
| Good System  | 72,926,000                           | 7.60       | –   | –          |
| Public       | 373,227,369                          | 38.88      | –   | –          |
| Total        | <u>959,899,416</u>                   | <u>100</u> | <u>513,746,047</u>                                  | <u>100</u> |

Upon the completion of the Proposal, the authorised and issued share capital of KSH will be reduced by cancelling and extinguishing the Scheme Shares. In addition, KSH will become a wholly-owned subsidiary of Power Jade and the listing of the KSH Shares on the Stock Exchange will be withdrawn.

### EFFECTS OF AND REASONS FOR THE PROPOSAL

Your attention is drawn to the paragraphs headed “Effects of the Proposal” and “Reasons for the Proposal” in the Explanatory Statement of this document.

### INFORMATION ON THE KSH GROUP AND FUTURE INTENTIONS

Your attention is drawn to the paragraphs headed “Information on the KSH Group” and “Future intentions” in the Explanatory Statement of this document.

### MEETINGS AND ACTION TO BE TAKEN BY KSH SHAREHOLDERS

Your attention is drawn to the paragraphs headed “Meetings” and “Action to be taken by KSH Shareholders” in the Explanatory Statement of this document.

### SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT

Your attention is drawn to the paragraphs headed “Share certificates, dealings and listing” and “Registration and payment” in the Explanatory Statement of this document.

### DIRECTORS’ INTERESTS IN THE KSH SHARES

Your attention is drawn to the paragraph headed “Disclosure of interests” in Appendix IV to this document. Save as disclosed in the aforesaid paragraph, as at the Latest Practicable Date, no other KSH Directors had any shareholding interests in KSH.

## LETTER FROM THE KSH BOARD

### FURTHER INFORMATION

Somerley has been appointed to advise the Independent Board Committee with regard to the Proposal. The text of the letter of advice from Somerley containing its recommendation and the principal factors and reasons that it has taken into consideration in arriving at its recommendation is set out on pages 13 to 33 of this document. We would advise you to read this letter carefully before you take any action in respect of the Proposal.

You are also urged to read carefully the letter from the Independent Board Committee set out on page 12 of this document, the Explanatory Statement and all the Appendices to this document set out on pages 34 to 128 of this document, the Scheme set out on pages 129 to 133 of this document and the notices of the Meetings set out on pages 134 to 137 of this document.

In considering what action to take in connection with the Proposal, you should consider your own tax position and, if you are in any doubt, you should consult your professional advisers.

Yours faithfully,  
For and on behalf of the board of  
**The Kwong Sang Hong International Limited**  
**Thomas Lau, Luen-hung**  
*Chairman*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**



**THE KWONG SANG HONG INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

**Stock Code: 189**

13th December, 2004

*To the KSH Independent Shareholders*

Dear Sir or Madam,

**PROPOSED PRIVATISATION OF  
THE KWONG SANG HONG INTERNATIONAL LIMITED  
BY POWER JADE LIMITED  
(TRADING AS POWER JADE CAPITAL LIMITED)  
BY WAY OF A SCHEME OF ARRANGEMENT  
UNDER SECTION 99 OF THE COMPANIES ACT  
AT THE CANCELLATION PRICE OF HK\$1.25 PER SCHEME SHARE**

It was announced on 4th November, 2004 that Power Jade had requested the KSH Directors to put forward the Proposal to the Scheme Shareholders to privatise KSH by way of the Scheme at the Cancellation Price of HK\$1.25 per Scheme Share. Details of the Proposal are set out in the section headed "Letter from the KSH Board" on pages 7 to 11 of the document of KSH dated 13th December, 2004 (the "Document"), of which this letter forms part. We have been appointed as members of the Independent Board Committee to give a recommendation to the KSH Independent Shareholders as to whether the terms of the Proposal are fair and reasonable so far as the KSH Independent Shareholders are concerned. Somerley has been appointed as the independent financial adviser to advise us in connection with the Proposal. Unless the context otherwise requires, terms used in this letter have the same meanings as defined in the Document.

Having taken into account the terms of the Scheme and the opinion of Somerley and, in particular, the factors, reasons and advice set out in the letter from Somerley on pages 13 to 33 of the Document, we consider that the terms of the Proposal are fair and reasonable to the KSH Independent Shareholders and recommend the KSH Independent Shareholders to vote in favour of the resolutions to be proposed at the Meetings.

We also draw the attention of the KSH Independent Shareholders to (i) the letter from the KSH Board; (ii) the Explanatory Statement; (iii) the letter from Somerley; and (iv) the Appendices to the Document.

Yours faithfully,  
For and on behalf of

**the Independent Board Committee of  
The Kwong Sang Hong International Limited**

**Mr. Alan Lam, Man-bun  
Mr. Matthew Hui, Chuen-fan**

**Ms. Phillis Loh, Lai-ping  
Mr. William Tsui, Hing-chuen**

*Independent non-executive KSH Directors*

## LETTER FROM SOMERLEY



Somerley Limited  
Suite 2201, 22nd Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

13th December, 2004

The Independent Board Committee  
The Kwong Sang Hong International Limited  
26th Floor, MassMutual Tower  
38 Gloucester Road  
Wanchai  
Hong Kong

Dear Sirs,

### PRIVATISATION PROPOSAL

#### INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in connection with the proposed privatisation of KSH by way of a scheme of arrangement under section 99 of the Companies Act. Details of the Proposal are contained in the document to the KSH Shareholders dated 13th December, 2004 (the "Document") of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as defined in the Document.

Both Messrs. Thomas Lau, Luen-hung and Joseph Lau, Luen-hung are directors of Power Jade. Mr. Simon Lo, Lin-shing is the deputy chairman and executive director of Tai Fook Securities Group Limited, which is the beneficial owner of Tai Fook, the financial adviser to Power Jade. Mr. Wilson Cheng, Kam-biu is the brother-in-law of Ms. Anita Shum, the sole beneficial owner of Solar Chain which is beneficially interested in 50% of Power Jade. Mr. Gerald To, Hin-tsun is a senior partner of a law firm which provides legal advice to KSH from time to time. Ms. Loretta Lau, Suk-han is a partner of a law firm which acts as legal advisers to Chinese Estates, the beneficial owner with an indirect interest of 50% in Power Jade, in respect of certain corporate transactions. Accordingly, the remaining KSH Directors, namely, Mr. Alan Lam, Man-bun, Ms. Phillis Loh, Lai-ping, Mr. Matthew Hui, Chuen-fan and Mr. William Tsui, Hing-chuen, have been appointed by the KSH Board as the Independent Board Committee to make a recommendation to the KSH Independent Shareholders regarding the Proposal. We have been appointed as independent financial adviser to advise the Independent Board Committee as regards the fairness and reasonableness of the terms of the Proposal.

Somerley is not associated with Power Jade or KSH or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, is considered eligible to give independent advice on the Proposal. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from Power Jade or KSH or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the KSH Directors and management of KSH, which we have assumed to be true, accurate and complete. We have reviewed the published information on KSH, including its audited financial statements for

## LETTER FROM SOMERLEY

the three years ended 30th November, 2003 and its interim report for the six months ended 31st May, 2004. We have discussed with Norton Appraisals the bases and assumptions for their valuation as at 31st October, 2004 of the KSH Group's property interests which is contained in Appendix II to the Document. We have reviewed the trading performance of the KSH Shares on the Stock Exchange for the past two years. We have sought and received confirmation from the KSH Directors and the directors of Power Jade that no material facts have been omitted from the information supplied and opinions expressed by them. We consider that the information which we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information and we have no reason to doubt the truth and accuracy of the information provided to us or that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of the KSH Group. We have also assumed that all representations contained or referred to in the Document were true at the time they were made, at the date of the Document and will continue to be true at the date of the Court Meeting.

### TERMS OF THE PROPOSAL

In summary, the Proposal involves the following principal steps:

- (i) all the Scheme Shares held by the Scheme Shareholders will be cancelled and in consideration thereof, the Scheme Shareholders will receive from Power Jade HK\$1.25 in cash for every Scheme Share held; and
- (ii) the authorised and issued share capital of KSH will be reduced and KSH will become a wholly-owned subsidiary of Power Jade and the listing of the KSH Shares on the Stock Exchange will be withdrawn.

Further details of the terms and conditions of the Proposal are set out in the Explanatory Statement in the Document.

The Scheme is subject to a number of conditions, including court sanction of the Scheme and approval by at least three-fourths in value of the votes, taken by poll, cast by a majority in number of the KSH Independent Shareholders present and voting at the Court Meeting, and dissenting votes, taken by poll, against the Scheme at the Court Meeting cast by the KSH Independent Shareholders not exceeding 10% in value of all the KSH Shares held by the KSH Independent Shareholders. KSH Independent Shareholders held 373,227,369 KSH Shares as at the Latest Practicable Date and 10% of such shares amounted to 37,322,736 KSH Shares.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation with regard to the Proposal, we have taken into account the following principal factors and reasons:

#### 1. Reasons for and background to the Proposal

The background to, and reasons for, the Proposal are set out in the Explanatory Statement included in the Document.

The KSH Group is principally engaged in property development, sales of properties, property leasing, manufacturing and trading in cosmetics products. The scale of operation of the KSH Group's cosmetics business is relatively small. For the past three years ended 30th November, 2001, 2002 and 2003, the cosmetics business contributed a small segment profit ranged between HK\$1.4 million to HK\$1.8 million each year. For the six months ended 31st May, 2004, the cosmetics business recorded a small segment profit of HK\$584,000.



## LETTER FROM SOMERLEY

As stated in the Explanatory Statement in the Document, the KSH Shares have been trading at a discount to its underlying net tangible asset value and the trading volume of the KSH Shares has been thin. For the period from 31st October, 2003 up to and including 1st November, 2004 (the “Last Trading Day”), being the last trading day prior to the suspension of trading in the KSH Shares pending the issue of the Announcement, the KSH Shares have been traded within the range of HK\$0.39 to HK\$1.21 per KSH Share with an average closing price of approximately HK\$0.65 per KSH Share. Such average closing price represents a discount of approximately 51.49% to the unaudited consolidated net tangible asset value of approximately HK\$1.34 per KSH Share as at 31st May, 2004. The average daily trading volume of the KSH Shares over the same period was approximately 906,620 KSH Shares, which represents approximately 0.09% of the issued share capital of KSH as at the Latest Practicable Date.

For the last two years, KSH has not raised any funds from the equity capital market. Given the low liquidity in the KSH Shares traded on the Stock Exchange, Power Jade believes that the ability of KSH to take advantage of being a listed company to raise funds from the equity capital market is limited and that any significant improvement of this situation in the foreseeable future remains uncertain. Further, no dividends have been declared by KSH for the past six financial years and it is not likely that any dividend will be declared by KSH in the near future. As such, it may not be justifiable for KSH to continue to incur the costs associated with maintaining its listed company status on the Stock Exchange.

In view of the above, Power Jade has requested the KSH Directors to put forward the Proposal to the Scheme Shareholders for consideration. Power Jade believes that the Proposal provides an opportunity for all the Scheme Shareholders to realise their investments in KSH at a premium over the prevailing average market price of the KSH Shares.

Our analysis on the market price and trading volume of the KSH Shares is set out under paragraph 6 below.

If the Scheme becomes effective, KSH will, subject to the approval of the Stock Exchange, withdraw the listing of the KSH Shares on the Stock Exchange. However, in the event that the Scheme is not approved or withdrawn or lapses, KSH will maintain the listing of the KSH Shares on the Stock Exchange.

### **2. Past results of the KSH Group**

A summary of the audited consolidated results of the KSH Group for the three years ended 30th November, 2003 and the unaudited consolidated results of the KSH Group for the six months ended 31st May, 2004 is set out in Appendix I to the Document.

## LETTER FROM SOMERLEY

The following table sets out the turnover, profitability and dividend of the KSH Group for the three years ended 30th November, 2003 and the six months ended 31st May, 2003 and 2004:

|  | <b>Audited</b>                   |                 |                 | <b>Unaudited</b>                  |                 |
|--|----------------------------------|-----------------|-----------------|-----------------------------------|-----------------|
|  | <b>Year ended 30th November,</b> |                 |                 | <b>Six months ended 31st May,</b> |                 |
|  | <b>2001</b>                      | <b>2002</b>     | <b>2003</b>     | <b>2003</b>                       | <b>2004</b>     |
|  | <i>HK\$'000</i>                  | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i>                   | <i>HK\$'000</i> |
|  | <i>(Restated)</i>                |                 |                 |                                   |                 |
| <b><i>Turnover</i></b>                     |                                  |                 |                 |                                   |                 |
| Property development                       | 109,915                          | 16,800          | 111,242         | 105,963                           | 2,136           |
| Property leasing                           | 26,547                           | 25,164          | 28,948          | 13,929                            | 16,075          |
| Cosmetics                                  | 4,807                            | 7,080           | 4,428           | 2,402                             | 2,156           |
|  | 141,269                          | 49,044          | 144,618         | 122,294                           | 20,367          |
| <b><i>Profitability</i></b>                |                                  |                 |                 |                                   |                 |
| Property development                       | (58,531)                         | (85,354)        | (16,031)        | (12,235)                          | (1,667)         |
| Property leasing                           | 14,070                           | (50,112)        | 68,802          | 8,764                             | 13,134          |
| Cosmetics                                  | 1,424                            | 1,776           | 1,495           | 994                               | 584             |
|  | (43,037)                         | (133,690)       | 54,266          | (2,477)                           | 12,051          |
| Unallocated expenses                       | (18,749)                         | (17,156)        | (19,897)        | (7,387)                           | (3,612)         |
| Operating profit (loss)                    | (61,786)                         | (150,846)       | 34,369          | (9,864)                           | 8,439           |
| Finance costs                              | (2,659)                          | (2,526)         | (8,231)         | (4,395)                           | (2,384)         |
| Investment income (loss)                   | 19,023                           | 5,464           | 1,632           | (1)                               | 2,771           |
| Other gain (loss)                          | (40,692)                         | (151,730)       | (87,121)        | (87,788)                          | 158             |
| Share of results of associates             | (12,444)                         | (1,093)         | 1,932           | 1,134                             | (35)            |
| Profits (loss) before taxation             | (98,558)                         | (300,731)       | (57,419)        | (100,914)                         | 8,949           |
| Taxation                                   | 26,441                           | 7,478           | (18,703)        | 1,340                             | (2,738)         |
| Profits (loss) after taxation              | (72,117)                         | (293,253)       | (76,122)        | (99,574)                          | 6,211           |
| Minority interests                         | 1,145                            | 36,946          | 2,510           | 3,900                             | 219             |
| Profit (loss) attributable to shareholders | (70,972)                         | (256,307)       | (73,612)        | (95,674)                          | 6,430           |
| <b><i>Dividend</i></b>                     |                                  |                 |                 |                                   |                 |
| Dividend declared and paid                 | –                                | –               | –               | –                                 | –               |
| Dividend per KSH Share (HK\$)              | –                                | –               | –               | –                                 | –               |

*(i) Turnover and profitability*

As shown in the above table, the turnover of the KSH Group comprises revenues generated from (a) property development; (b) property leasing; and (c) cosmetics. Set out below is a brief review of the performance of each segment during the above periods.

## LETTER FROM SOMERLEY

### (a) Property development

The property development segment accounted for approximately 78%, 34%, 77% and 10% of the total turnover of the KSH Group for the three years ended 30th November, 2001, 2002 and 2003 and six months ended 31st May, 2004 respectively. Turnover from property development is by its nature subject to large variations, depending on the timing of completion of major property development projects. The substantial reduction in turnover from property development for the six months ended 31st May, 2004 was mainly due to the substantial decrease in sales of properties, with only one residential unit with one car parking space and one workshop sold during the period.

Profitability of the property development business is largely dependent on prevailing market sentiment and economic condition. In the year ended 30th November, 2001, the property development segment recorded gross loss of HK\$58.5 million, which was largely due to loss on disposal of a property held for development of HK\$46.4 million, valuation deficit of HK\$2.0 million and loss on sales of properties of HK\$9.5 million. The gross loss of HK\$85.4 million for the year ended 30th November, 2002 was largely due to loss on sales of properties of HK\$4.2 million and valuation deficit of HK\$78.9 million. For the year ended 30th November, 2003, the loss from property development was reduced to HK\$16.0 million, which was attributable to loss on sales of properties of HK\$14.7 million and valuation deficit of HK\$3.6 million. A loss of HK\$1.7 million was recorded for the six months ended 31st May, 2004 from the property development sector, which was largely a result of loss on sales of properties of HK\$0.6 million.

### (b) Property leasing

The property leasing segment accounted for approximately 19%, 51%, 20% and 79% of the total turnover of the KSH Group for the three years ended 30th November, 2001, 2002 and 2003 and six months ended 31st May, 2004 respectively. The significant increase in turnover in percentage terms from property leasing for the six months ended 31st May, 2004 was mainly due to the small turnover contribution from property development and cosmetics, thus reducing the KSH Group's overall turnover for comparison purpose. Income from property leasing tends to be more stable than property development income. The fluctuations in the results for the property leasing segment over the three years ended 30th November, 2003 and six months ended 31st May, 2004 were largely due to significant revaluation deficit of HK\$69.3 million recorded for the year ended 30th November, 2002 and significant revaluation surplus of HK\$45.1 million recorded for the year ended 30th November, 2003.

### (c) Cosmetics

Cosmetics manufacturing and trading segment accounted for approximately 3%, 15%, 3% and 11% of the total turnover of the KSH Group for the three years ended 30th November, 2001, 2002 and 2003 and six months ended 31st May, 2004 respectively. The cosmetics business has always been an insignificant part of the KSH Group's overall business operation, with segment profits ranged from HK\$1.4 million to HK\$1.8 million for the three years ended 30th November, 2001, 2002 and 2003 and HK\$584,000 for the six months ended 31st May, 2004. The gross margin of the cosmetics business was stable ranging from 25% to 34% over the said periods.

### (ii) Operating profit (loss)

The KSH Group recorded significant operating loss of HK\$61.8 million and HK\$150.8 million for the two years ended 30th November, 2001 and 2002 respectively. The significant operating loss

## LETTER FROM SOMERLEY

for 2001 were largely due to loss on disposal of a property held for development, deficits on property revaluation and loss on sale of properties in the total amount of HK\$63.1 million, and HK\$152.4 million arisen from deficits on property revaluation and loss on sale of properties for 2002. The operating results for the year ended 30th November, 2003 improved to a profit of HK\$34.4 million, due largely to surplus on property revaluation of HK\$45.1 million. For the six months ended 31st May, 2004, the operating profit was HK\$8.4 million. As no property valuation was performed, no revaluation surplus/deficit was recorded during the said six-month period.

*(iii) Finance costs*

The KSH Group incurred finance costs of HK\$2.7 million, HK\$2.5 million, HK\$8.2 million and HK\$2.4 million for the three years ended 30th November, 2003 and six months ended 31st May, 2004 respectively. The substantial increase in finance costs for the year ended 30th November, 2003 was due to higher cost of financing for property development project prior to obtaining project finance loan which carried lower interest rate.

*(iv) Investment income (loss)*

The investment income comprises interest income, dividend income and holding gain/loss on the investments.

*(v) Other gain (loss)*

For the three years ended 30th November, 2003, majority of the losses were in relation to provision against investment in an associate, Dollar Union Limited (“Dollar Union”), the principal investment of which is the Tai Yuen Street/Wan Chai Road redevelopment project, in the amount of HK\$40 million, HK\$147 million and HK\$89 million respectively.

*(vi) Share of results of associates*

The significant loss of HK\$12.4 million recorded in the year ended 30th November, 2001 was a result of the significant loss recorded by an associate, which has become dormant subsequently.

*(vii) Profit/loss attributable to Shareholders*

The KSH Group recorded significant loss attributable to shareholders of HK\$71.0 million, HK\$256.3 million and HK\$73.6 million respectively for the three years ended 30th November, 2003. A small profit of HK\$6.4 million was recorded for the six months ended 31st May, 2004. The turnaround was primarily due to the decrease in loss on sale of properties and a settlement amount of HK\$5 million was received by the KSH Group in relation to a lawsuit.

*(viii) Dividend paid to Shareholders*

KSH has not declared any dividend over the past six financial years ended 30th November, 2003. The KSH Board has confirmed that it has no intention to declare a dividend prior to the Effective Date and consider that any resumption of dividend payment in future cannot be assured. In such circumstances, the KSH Independent Shareholders could, if they wish, reinvest the proceeds received from accepting the Proposal in other income generating assets.

## LETTER FROM SOMERLEY

### 3. Prospects of the KSH Group

#### (i) Property development and investment

The principal property interests held by the KSH Group comprise nine property interests in Hong Kong and two property interests in the PRC, with a total attributable market value of approximately HK\$2,171.6 million as at 31st October, 2004 as valued by Norton Appraisals, the valuation report of which is set out in Appendix II to this Document. Set out below is a summary of the major property interests of the KSH Group:

#### (a) Property interests held for investment in Hong Kong

- 7th and 11th floors of Chuang's Enterprises Building located in Wan Chai

This office property was valued at HK\$10.3 million as at 31st October, 2004. The occupancy rate at present is about 32%, generating an annual return of about 1.5% on the property. The unleased portion has been put in the market for lease.

- Various workshops, parking spaces and the roof in Hing Wai Centre located in Aberdeen

This industrial property was valued at HK\$72.3 million as at 31st October, 2004. The occupancy rate at present is about 58% generating an annual return of about 7.2% on the property. The workshop units are destined for sale while the car parks are retained for investment purpose or for enhancing lease/sale of the units.

#### (b) Property interests held for sale in Hong Kong

- Various industrial units, parking spaces and the roof in Kwong Kin Trade Centre located in Tuen Mun

This industrial property is owned as to 80% by the KSH Group. Its attributable value to the KSH Group was HK\$30.4 million as at 31st October, 2004. About 54% of the property is currently leased out, generating an annual return of about 5.4% on the property. The industrial units are destined for sale while the car parks are retained for investment purpose or for enhancing lease/sale of the units.

- Shops 5 and 6 on ground floor of Park Mansion located in Ngau Tau Kok

This property is owned as to 70% by the KSH Group. The property has a market value attributable to the KSH Group of HK\$1.6 million as at 31st October, 2004. One of the shops is leased out generating an annual return of about 1.8% on the property. The shops have been put in the market both for lease and for sale.

- 2 units and various parking spaces in Greenville Residence located in Yuen Long

This residential property had a market value of HK\$7.4 million as at 31st October, 2004. The property is currently vacant. The unsold residential units have been put in the market for sale through local agencies, but only a few enquiries have been received.

## LETTER FROM SOMERLEY

(c) *Property interests held under development for sale in Hong Kong*

- Indihome located in Tsuen Wan

This 56-storey serviced apartment building in Tsuen Wan is solely developed by the KSH Group. The property is currently under construction and is scheduled to be completed in late 2005. The total outstanding construction cost to complete the development as at 31st October, 2004 was approximately HK\$451.4 million. Norton Appraisals has valued the property at HK\$1,278 million as at 31st October, 2004. The “capital value when completed” of the development, which represents the property valuer’s opinion of the aggregate selling prices of the development assuming that it would have been completed at the date of valuation, was HK\$2,177 million. The KSH Group has commenced pre-sale of the property in mid November 2004. A total of 579 units, representing about 60% of the total residential units, have been sold up to 22nd November, 2004. Revenue from such sales will be recognised on the execution of the binding sales agreement and/or when the relevant occupation permit is issued by the authority, whichever is later. Based on the current progress, KSH expected that the occupation permit will be issued in the last quarter of 2005. If the occupation permit is issued on or before 30th November, 2005, the sales will be recognised in the accounts of KSH for the year ending 30th November, 2005. If the occupation permit is issued after the year end date of 2005, the sales will be recorded in the following financial year ending 30th November, 2006. We have consulted Norton Appraisals whether the prices offered under the pre-sale have any impact on its valuation. Norton Appraisals has confirmed that based on the price list supplied by the KSH Group for the sold units, its valuation of the property remains unchanged at HK\$1,278 million at its existing state. The KSH Group has indicated that majority of the remaining units are intended to be sold as completed development in late 2005.

- Lot 1861, Demarcation District 100, Sheung Shui

This property, solely developed by the KSH Group, is under construction into a private residential estate. The property is valued at HK\$287 million as at 31st October, 2004, with total outstanding construction cost to completion amounted to approximately HK\$115.9 million as at the same date. The property is planned to sell as completed development and completion of the property is scheduled to be in the first half of 2005.

(d) *Property interests held for future development in Hong Kong*

- 10 lots in Demarcation District 77 and 183 lots in Demarcation District 79, Fanling

The KSH Group has a 50% interest in this property which comprises various agricultural lots located in Ping Che and Wo Keng Shan and one house lot in Wo Keng Shan in Fanling. The property is mostly lying fallow. The KSH Group does not have any definite plan for its development at present.

- 47 lots in Demarcation District 79, Fanling

The KSH Group has an 87.5% interest in this property which comprises various agricultural lots in Wo Keng Shan in Fanling. The property is mostly lying fallow. The KSH Group does not have any definite plan for its development at present.

## LETTER FROM SOMERLEY

(e) *Property interests held for investment in the PRC*

- level 50 of main tower of Shun Hing Square, Shenzhen

The property is in a commercial complex in Shenzhen, and has a market value of HK\$30.7 million as at 31st October, 2004. The KSH Group is holding it for investment purpose. The property is fully leased to third parties and is generating an 8.5% annual return. The KSH Board believes this property will continue to generate a stable return to the KSH Group.

- unsold portions of Peregrine Plaza, Shanghai

The property is a commercial/office complex in Shanghai, and has a market value of HK\$393 million as at 31st October, 2004. The KSH Group is holding it for investment purpose. The occupancy rate at present is about 98% generating an annual return of about 6.5%. With the Shanghai property rental market remaining active, the KSH Board believes this property will continue to generate a steady but improving return to the KSH Group.

Besides the aforementioned property interests, the KSH Group also has a 25% interest in Dollar Union, which is the developer of the Tai Yuen Street/Wan Chai Road redevelopment project which is proposed to be developed into four blocks of high-rise residential buildings, providing 904 residential units with total gross floor area of about 670,705 square feet. Dollar Union is beneficially owned as to 25% by KSH and as to 75% by Chinese Estates. The Tai Yuen Street/Wan Chai Road redevelopment project is undertaken with the Urban Renewal Authority under a contractual arrangement whereby Dollar Union is responsible for paying all costs, expenses and charges in carrying out and completing the development. The contractual obligation of Dollar Union is guaranteed by KSH and Chinese Estates in proportion to their respective equity interests in Dollar Union. Based on the audited accounts of the KSH Group as at 30th November, 2003, the KSH Group's 25% interest in Dollar Union had a book value of HK\$30.9 million, which was after reduction of approximately HK\$305.3 million impairment loss recognised previously. In order to ascertain the fair value of the KSH Group's interest in Dollar Union, the KSH Directors have sought the opinion of Norton Appraisals on the market value of the project, the valuation of which is set out in Appendix II to the Document. Based on the valuation of Norton Appraisals, as at 31st October, 2004, the capital value in existing state of the Tai Yuen Street/Wan Chai Road redevelopment project attributable to the KSH Group was approximately HK\$356.5 million.

Other than the associate interest in Dollar Union, the KSH Group also has a 20% interest in a property investment company which holds an indirect 67% interest in a serviced apartment/office building in Vietnam. The KSH Directors have represented that the property has been stated at valuation in the subject company's audited accounts as of 31st December, 2003 and the management accounts as of 30th September, 2004, which figures were not materially different. In view of the aforesaid and the KSH Group's relatively insignificant effective interest in the property, we are of the view that the lack of updated valuation for the serviced apartment/office building will not materially affect the overall net asset value of the KSH Group. Save for the aforesaid, the KSH Group does not have any other material property interest held through associated companies.

With Hong Kong property interests representing more than 80% in value of the KSH Group's property portfolio, the prospects of the KSH Group's property investment and development business are heavily reliant on the economic conditions in Hong Kong, in particular, the sentiment in the Hong Kong

## LETTER FROM SOMERLEY

mid range residential property market, which the KSH Group's three active property development projects, namely, Indihome, Sheung Shui project and Tai Yuen Street/Wan Chai Road redevelopment project, are targeted. We are not in a position to forecast the future performance of the property market or the selling prospects of the three development properties. Nevertheless, the valuations of the properties as at 31st October, 2004 as assessed by Norton Appraisals have reflected their fair value in existing state, against which we have used to compared the terms of the Proposal. The KSH Group's remaining land bank for future development is its interests in certain demarcation districts in Fanling, the pre-requisites for development include application for re-zoning and payment of land premium to the Hong Kong government. Given the cost and procedures involved, the KSH Board has confirmed that KSH does not have any definite plan for its development at present.

(ii) *Cosmetics*

The cosmetics business of the KSH Group has reached a mature stage generating a stable return to it. Nevertheless, due to its small scale of operation and increasing costs and competition, the cosmetics business only contributes insignificantly to the KSH Group's overall performance. In this connection, in our assessment of the Proposal, we have taken the KSH Group largely as a property investment and development enterprise in our evaluation.

#### 4. Assets and net asset value

(i) *Assets*

The unaudited consolidated balance sheet of the KSH Group as at 31st May, 2004 is set out in Appendix I to the Document. Total assets and net assets as at that date of HK\$2,005 million and HK\$1,290 million respectively may be analysed as follows: –

|                                       | <b>HK\$ million</b> | <b>%</b> |
|---------------------------------------|---------------------|----------|
| Investment properties                 | 500                 | 25.0     |
| Properties held for development       | 149                 | 7.4      |
| Properties under development for sale | 1,085               | 54.1     |
| Properties held for sale              | 48                  | 2.4      |
|                                       | 1,782               | 88.9     |
| Cash and cash equivalent              | 14                  | 0.7      |
| Interests in associates*              | 42                  | 2.1      |
| Other assets                          | 167                 | 8.3      |
|                                       | 2,005               | 100.0    |
| Less: Current liabilities             | (106)               |          |
| Long term liabilities                 | (644)               |          |
| Minority interest                     | 35                  |          |
|                                       | 1,290               |          |
| <i>Net assets</i>                     | 1,290               |          |

\* Includes 25% interest in Dollar Union which develops the Tai Yuen Street/Wan Chai Road redevelopment project



## LETTER FROM SOMERLEY

As shown above, approximately 89% of the KSH Group's total asset as at 31st May, 2004 are properties, the valuations of which as at 31st October, 2004 are set out in the valuation report contained in Appendix II to the Document. The attributable value of the property interests based on the valuations may be analysed as follows: –

|  | Interest held<br>% | Attributable value<br>HK\$ million | Proportion of total<br>% |
|--|--------------------|------------------------------------|--------------------------|
| <b>Hong Kong</b>   |                    |                                    |                          |
| <i>Properties held for investment</i>  |                    |                                    |                          |
| – 7th and 11th floors of Chuang's Enterprises Building   | 100.0              | 10.30                              | 0.5                      |
| – Various workshops, parking spaces and the roof in Hing Wai Centre  | 100.0              | 72.30                              | 3.3                      |
| <i>Properties held for sale</i>  |                    |                                    |                          |
| – various units, parking spaces and the roof in Kwong Kin Trade Centre   | 80.0               | 30.40                              | 1.4                      |
| – Shops 5 and 6 on ground floor of Park Mansion  | 70.0               | 1.61                               | 0.1                      |
| – 2 units and various parking spaces in Greenville Residence   | 100.0              | 7.40                               | 0.3                      |
| <i>Properties held under development for sale</i>  |                    |                                    |                          |
| – Indihome   | 100.0              | 1,278.00                           | 58.9                     |
| – Lot 1861, Demarcation District 100, Sheung Shui  | 100.0              | 287.00                             | 13.2                     |
| <i>Properties held for future development</i>  |                    |                                    |                          |
| – 10 lots in Demarcation District 77 and 183 lots in Demarcation District 79, Fanling                          | 50.0               | 46.50                              | 2.1                      |
| – 47 lots in Demarcation District 79, Fanling  | 87.5               | 14.44                              | 0.7                      |
| <i>Total property interests in Hong Kong</i>   |                    | 1,747.95                           | 80.5                     |
| <b>PRC</b>   |                    |                                    |                          |
| <i>Properties held for investment</i>  |                    |                                    |                          |
| – level 50 of main tower of Shun Hing Square, Shenzhen   | 100.0              | 30.70                              | 1.4                      |
| – unsold portions of Peregrine Plaza, Shanghai   | 100.0              | 393.00                             | 18.1                     |
| <i>Total property interests in PRC</i>   |                    | 423.70                             | 19.5                     |
| <b>Total property interests</b>  |                    | 2,171.65                           | 100.0                    |
| Capital value in existing state of the Tai Yuen Street/Wan Chai Road redevelopment project attributable to KSH | 25.0               | 356.50                             |                          |

## LETTER FROM SOMERLEY

The above valuations have been used to calculate the adjusted unaudited consolidated net tangible assets of the KSH Group shown under sub-section (ii) below, against which the Cancellation Price is assessed. For this purpose, we have discussed the bases and assumptions for the property valuation with Norton Appraisals and concur with the approach they have taken in valuing the different types of properties in the differing locations. We note from the valuation report that the KSH Group has not been able to provide title proof documents in respect of 12 lots in Demarcation District 79, Fanling, covering a total area of 102,800 square feet, and as such, no market value has been assigned to such property interests. These 12 lots have their book value reduced to zero after provision in the books of the KSH Group. We understand from Norton Appraisals that should proper title proof be produced, the 12 lots in Demarcation District 79, Fanling would have market value of approximately HK\$4.6 million as at 31st October, 2004 (the "Potential Value"). As the Potential Value represents only approximately 0.2% of the KSH Group's total property interest of HK\$2,171.6 million as at 31st October, 2004, or just HK\$0.005 per KSH Share, we consider exclusion of the valuation of the said interest would not have any material impact on our analysis.

*(ii) Net asset value*

In the context of our advice on the Proposal, we have reassessed the adjusted unaudited consolidated net tangible assets ("Reassessed NAV") of the KSH Group based on the audited consolidated financial statements of KSH as at 30th November, 2003 and adjusted as follows, we consider that the Reassessed NAV would better reflect the underlying net asset backing of the KSH Group.

|  | <i>HK\$'000</i> |
|--|-----------------|
| Adjusted consolidated net tangible assets of KSH as at 30th November, 2003   | 1,283,776       |
| Add:   |                 |
| Unaudited consolidated profits of KSH for the six months ended 31st May, 2004 attributable to KSH Shareholders ( <i>Note 1</i> )   | 6,430           |
| Share of associates' unaudited reserve movement for the six months ended 31st May, 2004 ( <i>Note 2</i> )  | 2               |
| Revaluation surplus arising from the valuation of property interests attributable to the KSH Group as at 31st October, 2004 ( <i>Note 3</i> )                                  | 282,159         |
| Adjustment to reflect the fair value of the KSH Group's 25% interests in Dollar Union which develops the Tai Yuen Street/Wan Chai Road redevelopment project ( <i>Note 4</i> ) | 188,838         |
| Less:  |                 |
| Unaudited exchange adjustment for the six months ended 31st May, 2004 ( <i>Note 5</i> )  | (327)           |
| Adjusted unaudited consolidated net tangible assets of KSH   | 1,760,878       |
| Adjusted unaudited consolidated net tangible asset value per KSH Share, based on 959,899,416 KSH Shares in issue as at the Latest Practicable Date                             | HK\$1.83        |

## LETTER FROM SOMERLEY

### *Notes:*

1. The text of the interim announcement of the KSH Group for the six months ended 31st May, 2004 is set out in Appendix 1 to the Document.
2. The share of associates' unaudited reserve movement is in relation to the translation of the accounts of overseas associates in foreign currencies into Hong Kong dollars.
3. The potential tax liability of approximately HK\$41 million was estimated assuming disposal of certain properties, including properties under development for sale and investment properties, at their respective open market value in existing state as at 31st October, 2004 as valued by Norton Appraisals. Your attention is drawn to the notes to the financial statements of KSH set out in Appendix I to the Document, which sets out the KSH Group's accounting policies with respect to valuation of investment properties, properties held for development, properties under development for sale and properties held for sale and note 3 to the "Proforma statement of adjusted unaudited consolidated net tangible assets" contained in Appendix I to the Document.
4. The adjustment represents the KSH Group's share of revaluation surplus on the Tai Yuen Street/Wan Chai Road redevelopment project based on the open market value in its existing state as at 31st October, 2004 performed by Norton Appraisals.
5. The unaudited exchange adjustment is in relation to the translation of foreign currencies into Hong Kong dollars on consolidation of overseas subsidiaries.

The Cancellation Price of HK\$1.25 per KSH Share represents a discount of approximately 31.7% to the Reassessed NAV of HK\$1.83 per KSH Share.

### **5. Comparisons**

In considering the terms of the Proposal, we have compared the discount of 31.7% represented by the Cancellation Price to:

- the discounts to net assets at which the KSH Shares have been traded since the release by the KSH Group of its interim report for the six months ended 31st May, 2002;
- the discounts to net assets at which similar Hong Kong listed property companies have been traded over the same period;
- the discounts to net assets at which recent privatisation proposals for Hong Kong listed property companies have been made over the same period.

#### *(i) Historical discount of market price to net asset value*

We have compared the closing price of the KSH Shares against the then latest consolidated net asset value per KSH Share. We have assumed that such figures for consolidated net asset value per KSH Share were generally available to the market from the date of publication of the relevant full year or interim results announcements and that the KSH Share price has reflected such information, although such figures for consolidated net asset value per KSH Share might not have been explicitly stated in the relevant full year or interim results announcements.

## LETTER FROM SOMERLEY

| Period                        | Published<br>consolidated<br>net asset value<br>per KSH Share#<br>HK\$ | Closing price<br>per KSH Share |       | Discount to<br>net asset value |         |
|-------------------------------|--|--------------------------------|-------|--------------------------------|---------|
|                               |  | High                           | Low   | Lowest                         | Highest |
|                               |  | HK\$                           | HK\$  | %                              | %       |
| 12/8/2002* - 12/3/2003        | 1.713  | 0.214                          | 0.125 | 87.5                           | 92.7    |
| 13/3/2003* - 17/8/2003        | 1.437  | 0.275                          | 0.165 | 80.9                           | 88.5    |
| 18/8/2003* - 14/3/2004        | 1.317  | 0.750                          | 0.230 | 43.1                           | 82.5    |
| 15/3/2004* - 17/8/2004        | 1.337  | 0.720                          | 0.560 | 46.1                           | 58.1    |
| 18/8/2004* - Last Trading Day | 1.344  | 1.210                          | 0.680 | 10.0                           | 49.4    |

*Notes:*

- \* Date when KSH released its full year or interim results announcements.
- # Net asset values are extracted from KSH's annual or interim reports which were available on or after the date of the relevant release of full year or interim results announcements.

Based on the analysis set out above, the KSH Shares have been traded at a substantial discount to underlying net asset value for the period from 12th August, 2002 to 17th August, 2004, ranged from 43.1% to 92.7%. The discount of the market price of the KSH Shares to the underlying net asset value reached the lowest of 10% on 29th October, 2004 when KSH publicly announced the intention of Chinese Estates to privatise KSH by Chinese Estates and/or its concert parties. In the absence of the Proposal, in our opinion, it is unlikely that the discount will be narrowed to the lowest of 10%.

*(ii) Discounts of similar listed companies*

We have identified seven property companies listed in Hong Kong (the "Comparable Companies"), which are principally engaged in property investments and developments in Hong Kong and which have market capitalisation above HK\$500 million and below HK\$1,500 million and positive net asset value as at the Latest Practicable Date. We consider the Comparable Companies would form a useful comparison with the KSH Group.

The table below illustrates the level of discount of share prices to net asset values of each of the Comparable Companies and KSH.

|                                     | Closing<br>share price<br>on the<br>Latest<br>Practicable<br>Date<br>HK\$ | Last<br>audited<br>net asset<br>value<br>per share<br>HK\$ | Last<br>audited<br>consolidated<br>net asset<br>value<br>HK\$m | Discount<br>of share<br>price to<br>net asset<br>value<br>per share<br>% | Market<br>capitalisation<br>as at the<br>Latest<br>Practicable<br>Date<br>HK\$m |
|-------------------------------------|---|--|--|--|---|
| Shougang Concord Grand (Group) Ltd. | 0.540   | 0.673  | 632.0  | 19.8   | 507.2   |
| Y.T. Realty Group Ltd.              | 0.710   | 2.302  | 1,835.2  | 69.2   | 566.0   |
| Winfoong International Ltd.         | 0.380   | 0.820  | 1,224.5  | 53.7   | 567.1   |
| Tai Sang Land Development Ltd.      | 2.325   | 5.900  | 1,697.4  | 60.6   | 668.8   |
| Hon Kwok Land Investment Co., Ltd.  | 1.830   | 3.170  | 1,268.8  | 42.3   | 732.4   |
| Winsor Properties Holdings Ltd.     | 4.200   | 10.069   | 2,614.7  | 58.3   | 1,090.7   |
| Mexan Ltd.                          | 0.950   | 2.126  | 2,787.3  | 55.3   | 1,245.4   |
| <b>KSH</b>                          | <b>1.12</b>   | <b>1.83</b>  | <b>1,760.9</b>   | <b>38.8</b>  | <b>1,075</b>  |
|                                     | <i>(Note 1)</i>   | <i>(Note 2)</i>  | <i>(Note 2)</i>  | <i>(Note 4)</i>  | <i>(Note 1)</i>   |
| <b>Cancellation Price</b>           | <b>1.25</b>   | <b>1.83</b>  | <b>N/A</b>   | <b>31.7</b>  | <b>N/A</b>  |
|                                     | <i>(Note 3)</i>   | <i>(Note 2)</i>  |  | <i>(Note 4)</i>  |   |

## LETTER FROM SOMERLEY

*Notes:*

- (1) We have used the closing price of the KSH Shares of HK\$1.12 on 20th October, 2004 for the purpose of calculating the market capitalisation of KSH because this is the last closing price before public announcement by KSH of Chinese Estates's intention to privatise KSH by Chinese Estates and/or its concert parties.
- (2) Reassessed NAV.
- (3) Cancellation Price.
- (4) Amounts represent discount of share price/cancellation price compared with the Reassessed NAV.

All Comparable Companies are traded at discounts to net asset value in the range of 19.8% to 69.2%. The discount of approximately 31.7% represented by the Cancellation Price to the Reassessed NAV per KSH Share is at the lower end of the range.

In the absence of the Proposal and taking into consideration the asset mix and past financial performance of the KSH Group and the level of discount of share prices to net asset values of each of the Comparable Companies, in our opinion, it is unlikely that the discount to the underlying net asset value of 38.8% represented by the market price of the KSH Share of HK\$1.12 on 20th October, 2004, being the last trading day immediately before KSH issuing a public announcement regarding Chinese Estates's intention to privatise KSH by Chinese Estates and/or its concert parties, will be further narrowed down to the 31.7% discount represented by the Cancellation Price, taking into consideration the past discount patterns of the KSH Shares discussed in subsection (i) above.

*(iii) Privatisation precedents*

We have reviewed a total of seven privatisation proposals announced since 1st January, 2002 for companies listed on the Stock Exchange which are principally engaged in property investment and development. Summarised below is the level of discount to net assets at which these proposals were made:

| <b>Date</b> | <b>Company</b>  | <b>Principal activities</b>                                     | <b>Premium/(Discount)<br/>of cancellation<br/>price over/to<br/>consolidated<br/>net asset value<br/>per share</b> |
|-------------|---|---|--|
| <b>2003</b> |   |   |  |
| May         | Oxford Properties &<br>Finance Limited<br>("Oxford Properties") | Investment holding and<br>property investment                   | 6.6%   |
| May         | Pacific Concord<br>Holding Limited                              | Property development in the PRC<br>and Hong Kong                | (70.3)%  |
| May         | Top Glory International<br>Holdings Limited                     | Property investment and development<br>in the PRC and Hong Kong | (44.8)%  |

## LETTER FROM SOMERLEY

| <b>Date</b>         | <b>Company</b>                         | <b>Principal activities</b>   | <b>Premium/(Discount)<br/>of cancellation<br/>price over/to<br/>consolidated<br/>net asset value<br/>per share</b> |
|---------------------|--|---|--|
| April               | Kerry Properties Limited               | Property development and investment in Hong Kong, the PRC, Australia and the Philippines, logistics, freight and warehouse ownership and operation, infrastructure-related investment in Hong Kong and the PRC and hotel ownership in the PRC | (47.1)%<br>(Note 1)  |
| <b>2002</b>         |  |   |  |
| December            | Realty Development Corporation Limited | Property investment and development in Hong Kong  | (18.8)%  |
| November            | Henderson Investment Limited           | Property development and investment, investment holding, retailing and hotel business in Hong Kong  | (27.8)%<br>(Note 2)  |
| September           | Ryoden Development Limited             | Properties investment and development, property agency and management, and project management and property finance in Hong Kong and the PRC   | (28.6)%  |
| <b>the Proposal</b> |  |   | <b>(31.7)%</b>   |

*Source:* published circulars or announcements relating to the above proposals.

*Notes:*

1. Based on the revised cancellation price announced by Kerry Properties Limited on 30th April, 2003 and the average closing share price for the 30 trading days prior to the release of the first privatisation announcement on 23rd April, 2003.
2. Consolidated net asset value has been adjusted for the market values of the underlying listed securities held by Henderson Investment Limited.

As seen in the above table, cancellation price offered by other privatisation proposals ranged from 18.8% to 70.3% discount to net asset value with the exception of Oxford Properties at a 6.6% premium. We consider that the cancellation price for the Oxford Properties proposal, which is at a premium over underlying net asset value, may be probably due to the particular circumstances regarding the shareholding base and public float issues of Oxford Properties at the relevant time and therefore may not be an appropriate reference for the purpose of the Proposal.

The 31.7% discount to the Reassessed NAV represented by the Cancellation Price is mid-way in the range of the above precedent cases.

## LETTER FROM SOMERLEY

### 6. Share price and trading volume

#### (i) Share prices

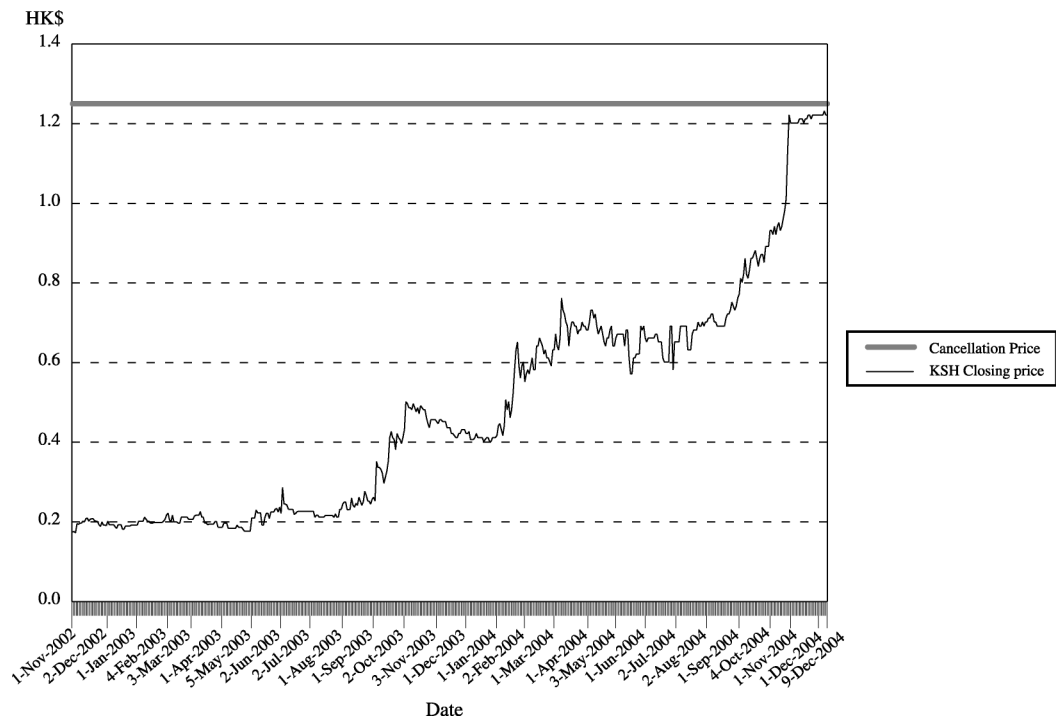
The following table sets out the monthly highest and lowest trading prices and the average closing prices of the KSH Shares of each month for the period commencing from 1st November, 2002 (being twenty-four months preceding the last trading day prior to the Last Trading Day) and up to the Last Trading Day (the “Period”).

| Month            | Closing price<br>per KSH Share |                       | Average closing<br>price per<br>KSH Share |
|------------------|--------------------------------|-----------------------|---|
|                  | Highest<br><i>HK\$</i>         | Lowest<br><i>HK\$</i> |   |
| <b>2002</b>      |                                |                       |   |
| November         | 0.198                          | 0.161                 | 0.185                                     |
| December         | 0.190                          | 0.170                 | 0.179                                     |
| <b>2003</b>      |                                |                       |   |
| January          | 0.200                          | 0.180                 | 0.187                                     |
| February         | 0.210                          | 0.185                 | 0.195                                     |
| March            | 0.214                          | 0.175                 | 0.191                                     |
| April            | 0.185                          | 0.165                 | 0.173                                     |
| May              | 0.225                          | 0.180                 | 0.207                                     |
| June             | 0.275                          | 0.207                 | 0.221                                     |
| July             | 0.220                          | 0.200                 | 0.206                                     |
| August           | 0.265                          | 0.219                 | 0.237                                     |
| September        | 0.415                          | 0.241                 | 0.349                                     |
| October          | 0.490                          | 0.420                 | 0.462                                     |
| November         | 0.445                          | 0.400                 | 0.423                                     |
| December         | 0.415                          | 0.390                 | 0.400                                     |
| <b>2004</b>      |                                |                       |   |
| January          | 0.640                          | 0.405                 | 0.502                                     |
| February         | 0.650                          | 0.540                 | 0.598                                     |
| March            | 0.750                          | 0.620                 | 0.673                                     |
| April            | 0.720                          | 0.630                 | 0.671                                     |
| May              | 0.680                          | 0.560                 | 0.635                                     |
| June             | 0.680                          | 0.570                 | 0.634                                     |
| July             | 0.690                          | 0.620                 | 0.665                                     |
| August           | 0.750                          | 0.680                 | 0.704                                     |
| September        | 0.880                          | 0.760                 | 0.838                                     |
| October          | 1.210                          | 0.910                 | 0.969                                     |
| Last Trading Day | 1.190                          | 1.190                 | 1.190                                     |

The highest and lowest trading prices per KSH Share during the Period were HK\$1.21 (on 29th October, 2004) and HK\$0.161 (on 5th November, 2002) respectively. The Cancellation Price of HK\$1.25 per Scheme Share represents a premium of approximately 3.3% over the highest closing price of HK\$1.21 per KSH Share and a premium of approximately 676.4% over the lowest closing price of HK\$0.161 per KSH Share during the Period.

## LETTER FROM SOMERLEY

The graph below illustrates the daily closing price per KSH Share quoted on the Stock Exchange from 1st November, 2002 up to the Latest Practicable Date (both dates inclusive):



As illustrated in the above share price chart, the closing price of the KSH Shares was below the Cancellation Price at all times during the period under review. The share prices were in general in an upward trend. The share prices were on an upward trend since early 2004, which we believe, could be due to gradual recovery of the Hong Kong property market in 2004. It should be note that the highest price of the KSH Shares of HK\$1.22 on 7th December, 2004 was recorded after the announcement of the Proposal. The Cancellation Price of HK\$1.25 per Scheme Share represents:

- a premium of approximately 3.3% over the closing price of HK\$1.210 per KSH Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- a premium of approximately 5.0% over the closing price of HK\$1.190 per KSH Share as quoted on the Stock Exchange on the Last Trading Day;
- a premium of approximately 23.0% over the average closing price of approximately HK\$1.016 per KSH Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including the Last Trading Day;
- a premium of approximately 36.2% over the average closing price of approximately HK\$0.918 per KSH Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including the Last Trading Day;



## LETTER FROM SOMERLEY

- a premium of approximately 52.6% over the average closing price of approximately HK\$0.819 per KSH Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including the Last Trading Day;
- a premium of approximately 64.0% over the average closing price of approximately HK\$0.762 per KSH Share based on the daily closing prices as quoted on the Stock Exchange over the 90 trading days up to and including the Last Trading Day; and
- a premium of approximately 77.3% over the average closing price of approximately HK\$0.705 per KSH Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including the Last Trading Day.

The KSH Shares have been trading at levels lower than the Cancellation Price of HK\$1.25 per Scheme Share on the market during the period under review. In our opinion, the recent rise in KSH Share price is highly likely to be induced by the speculation about and the eventual announcement of the Proposal. There is no assurance that the price of the KSH Shares will remain at the current level if the Proposal is withdrawn or lapses.

### *(ii) Turnover*

The table below sets out the total number of KSH Shares traded per month, the percentage of the monthly trading volume to the issued share capital of KSH and the percentage of the monthly trading volume to KSH Shares held by the public respectively for the period commencing from 1st November, 2002 and up to and including the Latest Practicable Date:

|             | <b>Total monthly trading volume of KSH Shares</b> | <b>% of total monthly trading volume to the total issued KSH Shares</b><br><i>(Note 1)</i> | <b>% of total monthly trading volume to the public float</b><br><i>(Note 2)</i> |
|-------------|---|--|---|
| <b>2002</b> |   |  |   |
| November    | 7,355,000   | 0.77   | 1.97  |
| December    | 1,050,000   | 0.11   | 0.28  |
| <b>2003</b> |   |  |   |
| January     | 1,410,000   | 0.15   | 0.38  |
| February    | 2,048,375   | 0.21   | 0.55  |
| March       | 2,692,050   | 0.28   | 0.72  |
| April       | 708,000   | 0.07   | 0.19  |
| May         | 5,796,890   | 0.60   | 1.55  |
| June        | 10,716,000  | 1.12   | 2.87  |
| July        | 1,244,000   | 0.13   | 0.33  |
| August      | 37,662,162  | 3.92   | 10.09   |
| September   | 132,751,800                                       | 13.83  | 35.57   |
| October     | 61,668,965  | 6.42   | 16.52   |
| November    | 9,807,500   | 1.02   | 2.63  |
| December    | 4,132,150   | 0.43   | 1.11  |

## LETTER FROM SOMERLEY

|   | <b>Total monthly trading volume of KSH Shares</b> | <b>% of total monthly trading volume to the total issued KSH Shares</b><br><i>(Note 1)</i> | <b>% of total monthly trading volume to the public float</b><br><i>(Note 2)</i> |
|---|---|--|---|
| <b>2004</b>                             |   |  |   |
| January                                 | 32,562,970  | 3.39   | 8.72  |
| February                                | 17,446,967  | 1.82   | 4.67  |
| March                                   | 39,663,800  | 4.13   | 10.63   |
| April                                   | 6,040,000   | 0.63   | 1.62  |
| May                                     | 3,034,700   | 0.32   | 0.81  |
| June                                    | 2,550,500   | 0.27   | 0.68  |
| July                                    | 1,094,000   | 0.11   | 0.29  |
| August                                  | 4,354,593   | 0.45   | 1.17  |
| September                               | 18,394,000  | 1.92   | 4.93  |
| October                                 | 44,945,350  | 4.68   | 12.04   |
| 1st November to Latest Practicable Date | 75,077,284  | 7.82   | 20.12   |

*Notes:*

1. Based on approximately 959,899,416 KSH Shares in issue as at the Latest Practicable Date.
2. Based on the number of KSH Shares held by public of approximately 373,227,369 KSH Shares from November 2002 up to the Latest Practicable Date.

The monthly trading volume of the KSH Shares during the aforesaid was mixed with turnover below 10% of the KSH Shares in public hands for most of months, except for August to October 2003, March 2004 and October 2004 onwards. KSH issued announcements on 3rd September, 2003, 3rd October, 2003 and 8th March, 2004 confirming that it was not aware of the reasons for the increase in trading volume and/or share price. The recent increase in trading volume from October 2004 onwards was believed to be caused by speculation about and the eventual announcement of the Proposal.

Based on trading volume in the past, in our view, this level of liquidity would not be sufficient for the KSH Shareholders to sell significant numbers of their KSH Shares in the market without selling at a substantial discount to the market price of the KSH Shares. The Proposal represents an opportunity for Scheme Shareholders to dispose of their entire holdings at the Cancellation Price if they so wish.

### DISCUSSION AND CONCLUSION

We have principally considered the Proposal in light of two factors taken together - the discount to the Reassessed NAV and the premium over market price. The discount of the Cancellation Price to the Reassessed NAV per KSH Share is 31.7%, which is lower than the discount of the closing prices to the net assets of the KSH Shares in the range of 43.1% to 92.7% during the past two years ended 31st August, 2004. The market price of the KSH Shares gradually picked up from early September 2004 onwards and reached the highest closing price of HK\$1.21 on 29th October, 2004 following the announcement by KSH of the intention of Chinese Estates to privatise KSH by Chinese Estates and/or its concert parties but before announcement of the Proposal. In the absence of the Proposal, in our opinion, it is unlikely that the discount of the market price of the KSH Shares to the underlying net asset value will be narrowed to the lowest of 10% recorded on 29th October, 2004 before announcement of the Proposal.

## LETTER FROM SOMERLEY

The shares of the mid-size Hong Kong property companies to which we consider KSH is comparable are trading in the market at discounts in the range of 19.8% to 69.2% to their underlying net asset values. The discounts of cancellation/offer price to net asset values in other Hong Kong privatisation proposals offered by comparable property companies in the last two years are in the range of 18.8% to 70.3%. The Proposal at 31.7% discount to the Reassessed NAV lies at mid range when compared with other comparable listed companies and privatisation precedent cases.

The Cancellation Price of HK\$1.25 per Scheme Share represents a 36.2% premium over the 30 trading days' average price before the Last Trading Day. In addition, the liquidity of the KSH Shares has been relatively low in the past. Consequently, we consider that the Proposal, through which the KSH Independent Shareholders will be able to dispose of their entire holding of the KSH Shares at an attractive premium over recent market prices, represents a good opportunity for the KSH Independent Shareholders to realise their investments.

Based on the above principal factors and reasons, we consider the terms of the Proposal, in particular the Cancellation Price, are fair and reasonable to the KSH Independent Shareholders. Accordingly, we recommend the Independent Board Committee to advise the KSH Independent Shareholders to vote in favour of the resolutions to approve the Scheme to be proposed at the Court Meeting and the Special General Meeting.

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

## **EXPLANATORY STATEMENT**

*This Explanatory Statement constitutes the statement required under Section 100 of the Companies Act.*

### **SCHEME OF ARRANGEMENT FOR THE CANCELLATION OF THE SCHEME SHARES AND THE PAYMENT OF THE CANCELLATION PRICE**

#### **INTRODUCTION**

It was announced by KSH and Power Jade on 4th November, 2004 that Power Jade had requested the KSH Board to put forward the Proposal to the Scheme Shareholders for consideration.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal and to give the Scheme Shareholders other relevant information with respect to the Proposal.

A letter from the KSH Board is set out on pages 7 to 11 of this document. A letter from the Independent Board Committee in connection with the Proposal is set out on page 12 of this document and a letter from Somerley setting out its advice to the Independent Board Committee in connection with the Proposal is set out on pages 13 to 33 of this document. The Scheme is set out on pages 129 to 133 of this document.

#### **SUMMARY OF THE PROPOSAL**

It is proposed that, subject to the Conditions being fulfilled or waived (as applicable), the Proposal will be implemented by way of the Scheme, which will involve the cancellation and extinguishment of the Scheme Shares and a reduction of the authorised and issued share capital of KSH under Section 46 of the Companies Act. The Scheme also provides that, in consideration of such cancellation and extinguishment, the Scheme Shareholders will be entitled to receive the Cancellation Price of HK\$1.25 in cash from Power Jade for each Scheme Share held. The consideration to be received by the Scheme Shareholders under the Proposal is not subject to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

Payment of the Cancellation Price will be effected by way of cheque and implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right which Power Jade may have or claim to have against any Scheme Shareholders.

As at the Latest Practicable Date, there were 959,899,416 KSH Shares in issue and the Scheme Shareholders were interested in 446,153,369 KSH Shares, representing approximately 46.48% of the issued share capital of KSH. KSH did not have any outstanding options, warrants or convertible securities as at the Latest Practicable Date.

On the basis of the Cancellation Price and a total of 959,899,416 KSH Shares in issue as at the Latest Practicable Date, the Proposal values the entire issued share capital of KSH at about HK\$1.20 billion. The amount of cash required for the Proposal is approximately HK\$557.7 million. To fund the implementation of the Proposal, Chinese Estates and Solar Chain, each of them being the 50% beneficial owner of Power Jade, will provide funding to Power Jade either by way of an interest-free loan which is repayable on demand or by way of equity through the subscription of new shares issued by Power Jade (in each case being pro-rata to their respective shareholdings in Power Jade) in the loan amount or subscription proceeds (as the case may be) of an aggregate of not less than HK\$557.7 million. Chinese Estates will fulfill the funding needs by its internal resources or bank borrowings whilst Solar Chain will be financed by an advance provided by Chow Tai Fook Jewellery Company Limited. The repayment by Power Jade of the shareholders' loans to each of Chinese Estates and Solar Chain will not depend on the business of KSH. Tai Fook is satisfied that Power Jade has sufficient financial resources for the implementation of the Proposal.

## EXPLANATORY STATEMENT

The Proposal will become effective and binding on KSH and all Scheme Shareholders, provided that the Conditions are fulfilled or, where applicable, waived. The Conditions are set out in the section headed “Conditions of the Proposal” in the Explanatory Statement on pages 35 and 36 of this document.

The Proposal will lapse if the Scheme does not become effective on or before 31st March, 2005 (or such later date as Power Jade and KSH may agree or as the Supreme Court may direct) and the Scheme Shareholders will be notified accordingly by press announcement. Further announcements regarding the Proposal will be made as and when appropriate.

### CONDITIONS OF THE PROPOSAL

The Proposal will become effective and binding on KSH and all Scheme Shareholders subject to the fulfillment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme (by way of poll) by a majority in number of the KSH Independent Shareholders representing not less than three-fourths in value of the Scheme Shares present and voting either in person or by proxy at the Court Meeting to consider the Scheme, provided that:
  - (i) the Scheme is approved by at least 75% of votes attaching to the Scheme Shares held by the KSH Independent Shareholders present and voting either in person or by proxy; and
  - (ii) the number of votes cast against the resolution to approve the Scheme is not more than 10% of the votes attaching to the Scheme Shares held by the KSH Independent Shareholders;
- (b) the passing of a special resolution at the Special General Meeting to be convened following the Court Meeting to approve and give effect to the Proposal (including the cancellation of the Scheme Shares and the reduction of the authorised and issued share capital of KSH) by a majority of at least three-fourths of votes cast by the KSH Shareholders present and voting, in person or by proxy;
- (c) the sanction of the Scheme (with or without modification) by the Supreme Court and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Supreme Court for registration;
- (d) the necessary compliance with the requirements of Section 46 of the Companies Act in relation to the reduction of the authorised and issued share capital of KSH as regards the Scheme Shares;
- (e) all Authorisations in connection with the Proposal having been obtained from, with or by (as the case may be) the Relevant Authorities, in Bermuda and/or Hong Kong and/or any other relevant jurisdictions;
- (f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Proposal becomes effective;
- (g) all other necessary consents which may be required under any existing contractual obligations of KSH being obtained; and

## EXPLANATORY STATEMENT

- (h) if required, the obtaining by Chinese Estates of such other necessary consent, approval, authorisation, permission, waiver or exemption which may be required from any Relevant Authorities or other third parties which are necessary or desirable for the performance of the Scheme under the applicable laws and regulations, including but without limitation to the relevant regulatory approval(s) by the Stock Exchange or as required under the Listing Rules.

Power Jade reserves the right to waive condition (g), either in whole or in respect of any particular matter. In the event that condition (e) or (f) is not fulfilled by reason of an Authorisation not having been obtained, Power Jade reserves the right to assess the materiality of such non-fulfillment and to waive the fulfillment of such condition(s) to such extent where it considers appropriate. Conditions (a) to (d) and (h) cannot be waived in any event. All of the above conditions will have to be fulfilled or waived, as applicable, on or before 31st March, 2005 (or such other date as Power Jade and KSH may agree or as the Supreme Court may direct), otherwise the Proposal will lapse. A press announcement will be made by Power Jade and KSH if the Proposal lapses.

Assuming that all of the Conditions are fulfilled or waived (as applicable), the Scheme will become effective on the Effective Date, which is expected to be in the morning on Friday, 21st January, 2005 (Bermuda time) (which will be the evening on Friday, 21st January, 2005 (Hong Kong time)). Please refer to the expected timetable as set out on pages 5 and 6 of this document. Further press announcements will be made giving details of the results of the Meetings, the results of the hearing of the petition to sanction the Scheme by the Supreme Court and the sanction of the Scheme, and, if all the Conditions are fulfilled or waived (as applicable), the last day for dealings in the KSH Shares, the Record Time, the Effective Date and the date of withdrawal of the listing of the KSH Shares on the Stock Exchange.

### EFFECTS OF THE PROPOSAL

#### Shareholding structure

The table below sets out the shareholding structure of KSH as at the Latest Practicable Date and immediately following completion of the Proposal:

| Shareholders | As at the<br>Latest Practicable Date |            | Immediately following<br>completion of the Proposal |            |
|--------------|--------------------------------------|------------|---|------------|
|              | Number of<br>KSH Shares              | %          | Number of<br>KSH Shares                             | %          |
| Power Jade   | 513,746,047                          | 53.52      | 513,746,047   | 100        |
| Good System  | 72,926,000                           | 7.60       | –   | –          |
| Public       | 373,227,369                          | 38.88      | –   | –          |
| Total        | <u>959,899,416</u>                   | <u>100</u> | <u>513,746,047</u>                                  | <u>100</u> |

As at the Latest Practicable Date, KSH did not have any outstanding options, warrants or convertible securities. Upon the completion of the Proposal, the authorised and issued share capital of KSH will be reduced by cancelling and extinguishing the Scheme Shares. In addition, KSH will become a wholly-owned subsidiary of Power Jade and the listing of the KSH Shares on the Stock Exchange will be withdrawn.

#### Share value

The Cancellation Price under the Proposal will be payable in cash which represents:

## EXPLANATORY STATEMENT

- (a) a premium of approximately 3.31% over the closing price of HK\$1.21 per KSH Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 5.04% over the closing price of HK\$1.19 per KSH Share as quoted on the Stock Exchange on 1st November, 2004 (being the last trading day prior to the suspension of trading in the KSH Shares pending the issue of the Announcement);
- (c) a premium of approximately 23.03% over the average closing price of approximately HK\$1.016 per KSH Share based on the daily closing prices as quoted on the Stock Exchange over the 10 consecutive trading days up to and including 1st November, 2004;
- (d) a premium of approximately 36.17% over the average closing price of approximately HK\$0.918 per KSH Share based on the daily closing prices as quoted on the Stock Exchange over the 30 consecutive trading days up to and including 1st November, 2004;
- (e) a premium of approximately 52.63% over the average closing price of approximately HK\$0.819 per KSH Share based on the daily closing prices as quoted on the Stock Exchange over the 60 consecutive trading days up to and including 1st November, 2004;
- (f) a discount of approximately 6.72% to the unaudited consolidated net tangible asset value (as published in the interim report of KSH for the six months ended 31st May, 2004) per KSH Share of approximately HK\$1.34 as at 31st May, 2004; and
- (g) a discount of approximately 6.72% to the proforma adjusted unaudited consolidated net tangible asset value per KSH Share of approximately HK\$1.34 as set out in Appendix I to this document.

Historical share price information of the KSH Shares is set out in the paragraph headed “Market prices” in Appendix IV to this document.

### **Net tangible assets**

As at 30th November, 2003, the audited consolidated net tangible assets of the KSH Group amounted to approximately HK\$1,283.8 million, or approximately HK\$1.34 per KSH Share (based on 959,899,416 KSH Shares in issue as at the Latest Practicable Date). The Cancellation Price represents a discount of approximately 6.72% to such audited consolidated net tangible asset value per KSH Share.

As at 31st May, 2004, the unaudited consolidated net tangible assets of the KSH Group (as published in the interim report of KSH for the six months ended 31st May, 2004) was approximately HK\$1,289.9 million, or approximately HK\$1.34 per KSH Share (based on 959,899,416 KSH Shares in issue as at the Latest Practicable Date). The Cancellation Price represents a discount of approximately 6.72% to such unaudited consolidated net tangible asset value per KSH Share.

The KSH Shares have been consistently trading below the net tangible asset value per KSH Share. The table below shows the average closing prices of the KSH Shares quoted on the Stock Exchange for each of the twelve calendar months immediately prior to the Latest Practicable Date and the relevant trading discounts as compared with the net tangible asset value per KSH Share based on the audited consolidated balance sheet of the KSH Group as at 30th November, 2003 and the number of KSH Shares in issue as at the Latest Practicable Date.

## EXPLANATORY STATEMENT

| <b>Month</b> | <b>Average<br/>closing price</b> | <b>Discount to net<br/>tangible asset value<br/>per KSH Share as at<br/>30th November, 2003</b> |
|--------------|----------------------------------|---|
| <b>2003</b>  | <i>HK\$</i>                      | <i>%</i>  |
| December     | 0.400                            | 70.1  |
| <b>2004</b>  |                                  |   |
| January      | 0.502                            | 62.5  |
| February     | 0.598                            | 55.4  |
| March        | 0.673                            | 49.8  |
| April        | 0.671                            | 49.9  |
| May          | 0.635                            | 52.6  |
| June         | 0.634                            | 52.7  |
| July         | 0.665                            | 50.4  |
| August       | 0.704                            | 47.5  |
| September    | 0.838                            | 37.5  |
| October      | 0.979                            | 27.0  |
| November     | 1.199                            | 10.5  |

### **Earnings and dividend**

The audited consolidated loss attributable to the KSH Shareholders for the year ended 30th November, 2003 was approximately HK\$73.6 million, representing loss of approximately HK\$0.077 per KSH Share. The unaudited consolidated profit attributable to the KSH Shareholders (as published in the interim report of KSH for the six months ended 31st May, 2004) for the six months ended 31st May, 2004 was approximately HK\$6.4 million, representing earnings of approximately HK\$0.0067 per KSH Share.

KSH recorded audited losses attributable to the KSH Shareholders for the five consecutive years ended 30th November, 2003 and did not declare any dividends in the past six years. The KSH Board confirmed that it has no intention to declare a dividend in respect of the KSH Shares prior to the Effective Date and consider that any resumption of dividend payments in the future cannot be assured.

Given that KSH recorded audited losses attributable to the KSH Shareholders for the five consecutive years ended 30th November, 2003 and did not declare any dividends in the past six years, any valuation of KSH Shares with reference to historical profit records of the KSH Group or dividend payment of KSH is considered not to be applicable.

### **REASONS FOR THE PROPOSAL**

The KSH Shares have been trading at a discount to its underlying net tangible asset value per KSH Share and the trading volume of the KSH Shares has been thin. For the period from 31st October, 2003 up to and including 1st November, 2004 (being the last trading day prior to the suspension of trading in the KSH Shares pending the issue of the Announcement), the KSH Shares have been traded within the range from HK\$0.39 to HK\$1.21 per KSH Share with an average closing price of approximately HK\$0.65 per KSH Share. Such average closing price represents a discount of approximately 51.49% to the unaudited consolidated net tangible asset value (as published in the interim report of KSH for the six months ended 31st May, 2004) per KSH Share of approximately HK\$1.34 as at 31st May, 2004. The average daily trading volume of the KSH Shares for the period from 31st October, 2003 up to and including 1st November, 2004 was approximately 906,620 KSH Shares. Such daily trading volume represents about 0.09% of the issued share capital of KSH as at the Latest Practicable Date.



## EXPLANATORY STATEMENT

For the last two years, KSH has not raised any funds from the equity capital market. Given the low liquidity in the KSH Shares traded on the Stock Exchange, Power Jade believes that the ability of KSH to take advantage of being a listed company to raise funds from the equity capital market is limited and that any significant improvement of this situation in the foreseeable future remains uncertain. Further, no dividends have been declared by KSH for six years and it is not likely that any dividend will be declared by KSH in the near future. Therefore, it may not be justifiable for KSH to continue to incur the costs associated with maintaining its listed company status on the Stock Exchange.

In view of the above, Power Jade has requested the KSH Directors to put forward the Proposal to the Scheme Shareholders for consideration. The Cancellation Price represents a premium of approximately 23.03%, 36.17% and 52.63% over the average daily closing price of KSH Shares over the 10 trading days, 30 trading days and 60 trading days respectively up to and including 1st November, 2004. In addition, the Cancellation Price represents a discount of about 6.72% to the unaudited consolidated net tangible asset value (as published in the interim report of KSH for the six months ended 31st May, 2004) per KSH Share of approximately HK\$1.34 as at 31st May, 2004. In view of above factors, Power Jade believes that the Proposal provides an opportunity for all the Scheme Shareholders to realise their investments in KSH at a premium to the prevailing average market price of the KSH Shares.

### INFORMATION ON THE KSH GROUP

#### Business

The principal activities of the KSH Group include property development, sales of properties, property leasing, manufacturing and trading in cosmetic products.

A breakdown of the KSH Group's turnover for each of the two years ended 30th November, 2002 and 30th November, 2003 and for the six months ended 31st May, 2004 by business segments is set out below:

|                                    | <b>Audited results<br/>for the year ended<br/>30th November</b> | <b>Unaudited results<br/>for the six<br/>months ended</b> |                  |
|------------------------------------|---|---|------------------|
|                                    | <b>2002</b>   | <b>2003</b>   | <b>2004</b>      |
|                                    | <i>HK\$ '000</i>  | <i>HK\$ '000</i>  | <i>HK\$ '000</i> |
|                                    | (Restated)  |   |                  |
| Property development and sales     | 16,800  | 111,242   | 2,136            |
| Property leasing                   | 25,164  | 28,948  | 16,075           |
| Cosmetic manufacturing and trading | 7,080   | 4,428   | 2,156            |
|                                    | 49,044  | 144,618   | 20,367           |
| Total turnover                     | 49,044  | 144,618   | 20,367           |

#### Historical financial information

A summary of the audited consolidated results of the KSH Group for each of the two years ended 30th November, 2002 and 30th November, 2003 and the unaudited consolidated results of the KSH Group for the six months ended 31st May, 2004 is set out below:

## EXPLANATORY STATEMENT

|  | <b>Audited results<br/>for the year ended<br/>30th November<br/>2002</b> | <b>Audited results<br/>for the year ended<br/>30th November<br/>2003</b> | <b>Unaudited results<br/>for the six<br/>months ended<br/>31st May<br/>2004</b> |
|--|--|--|---|
|  | <i>HK\$ '000</i>   | <i>HK\$ '000</i>   | <i>HK\$ '000</i>  |
| Turnover                                   | <u>49,044</u>  | <u>144,618</u>   | <u>20,367</u>   |
| (Loss)/profit before taxation              | (300,731)  | (57,419)   | 8,949   |
| Taxation                                   | <u>7,478</u>   | <u>(18,703)</u>  | <u>(2,738)</u>  |
| (Loss)/profit after taxation               | (293,253)  | (76,122)   | 6,211   |
| Minority interests                         | <u>36,946</u>  | <u>2,510</u>   | <u>219</u>  |
| (Loss)/profit attributable to shareholders | <u>(256,307)</u>   | <u>(73,612)</u>  | <u>6,430</u>  |

As at 31st May, 2004, the unaudited consolidated net tangible assets of the KSH Group (as published in the interim report of KSH for the six months ended 31st May, 2004) amounted to approximately HK\$1,289.9 million, representing approximately HK\$1.34 per KSH Share (based on 959,899,416 KSH Shares in issue as at the Latest Practicable Date).

### **Business review**

The audited consolidated turnover of the KSH Group increased by 194.9% to approximately HK\$144.6 million for the year ended 30th November, 2003 as compared with approximately HK\$49.0 million for the year ended 30th November, 2002 and it was mainly attributable to the increase in sales proceeds from property trading and gross rental income. Audited consolidated loss attributable to shareholders decreased from approximately HK\$256.3 million for the year ended 30th November, 2002 to approximately HK\$73.6 million for the year ended 30th November, 2003. The improved results were mainly attributable to the recovery in Hong Kong property market which led to the net revaluation surplus of the KSH Group's investment properties recognised in 2003. In addition, no further impairment loss in respect of properties held for development was recognised by the KSH Group for the year ended 30th November, 2003. For the six months ended 31st May, 2004, the KSH Group recorded an unaudited consolidated profit attributable to shareholders of approximately HK\$6.4 million as compared with loss attributable to shareholders of approximately HK\$95.7 million for the corresponding period last year.

#### *Property development and sales of properties*

The KSH Group has interests in three major property development projects including Sheung Shui development project, Yeung Uk Road redevelopment project and Tai Yuen Street/Wan Chai Road redevelopment project.

The Sheung Shui development project is wholly-owned by the KSH Group and is under construction into a private residential estate. The property is planned to sell as completed development in the first half of 2005.

Yeung Uk Road redevelopment project is solely developed by the KSH Group. It is a 56-storey serviced apartment project located in Tsuen Wan and is named as "Indihome". The property is currently under construction and is scheduled to be completed in late 2005. The KSH Group has commenced pre-sale of the property in mid November 2004 and a total of 579 units, representing about 60% of the total residential units, have been sold up to 22nd November, 2004. Majority of the remaining units are intended to be sold as completed development in late 2005.

## EXPLANATORY STATEMENT

Tai Yuen Street/Wan Chai Road redevelopment project is developed by an associated company of the KSH Group which indirectly holds 25% of its interest. The project is undertaken with the Urban Renewal Authority under a contractual arrangement and is proposed to be developed into four blocks of residential buildings, providing 904 residential units with total gross floor area of about 670,705 square feet.

Apart from the above property development projects, the KSH Group also has interests in certain agricultural lots in Fanling for future development and certain residential properties, shops, industrial units and parking spaces which are destined for sale.

### *Property leasing*

Currently the KSH Group principally has interests in two properties in Hong Kong and two properties in China for leasing.

Details of the KSH Group's principal property interests are set out in the valuation report in Appendix II to this document.

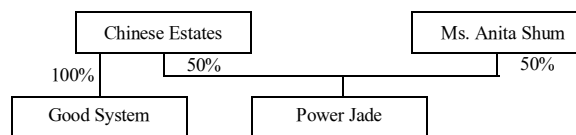
### *Manufacturing and trading in cosmetic products*

“Two Girls” brand is the KSH Group's flagship cosmetics products. Product lines including makeup products and skincare products are being offered to market from time to time.

## INFORMATION ON POWER JADE

Power Jade is an investment holding company incorporated in the British Virgin Islands on 2nd January, 1998 with limited liability. Power Jade has not conducted any business other than the investment holding of its interests in the KSH Shares. Power Jade is owned as to 50% indirectly by Chinese Estates and as to 50% directly by Solar Chain. The directors of Power Jade are Mr. Joseph Lau, Luen-hung, Mr. Thomas Lau, Luen-hung, Ms. Anita Shum and Solar Chain. The sole director of Solar Chain and its representative on the board of directors of Power Jade is Ms. Anita Shum. The chairman of the board of directors of Power Jade does not have a casting vote at the board meeting of Power Jade.

The chart below illustrates the simplified shareholding structure of Power Jade and Good System as at the Latest Practicable Date:



Chinese Estates is an investment holding company incorporated in Bermuda with limited liability, the shares of which (stock code: 127) are listed on the Stock Exchange. The Chinese Estates Group is principally engaged in property investment and development, brokerage, securities investment and money lending.

Apart from its interests in KSH through Power Jade, Chinese Estates also holds approximately 7.60% interests in KSH through Good System, which is an investment holding company incorporated in Hong Kong with limited liability and is a wholly-owned subsidiary of Chinese Estates.

Solar Chain is a single purpose investment holding company and its entire issued share capital is beneficially owned by Ms. Anita Shum. Ms. Anita Shum is the daughter-in-law of Mr. Cheng Yue-Pui, a younger brother of Dato' Dr. Cheng Yu-Tung. Dato' Dr. Cheng Yu-Tung is the chairman of New World Development Company Limited, the shares of which (stock code: 17) are listed on the Stock Exchange. Mr. Cheng Yue-Pui is a non-executive director of New World Development Company Limited.

## **EXPLANATORY STATEMENT**

None of Power Jade, Good System, Chinese Estates, Ms. Anita Shum and parties acting in concert with any of them holds any derivatives in the KSH Shares as at the Latest Practicable Date.

### **FUTURE INTENTIONS**

Whether or not the Proposal is implemented, the KSH Directors do not, and Power Jade has stated that it does not, have any intention to make any significant changes to the existing businesses, management (including the composition of the KSH Board), employment of the staff or any significant redeployment of fixed assets of the KSH Group.

The KSH Directors intend that the listing of the KSH Shares on the Stock Exchange will be withdrawn if the Scheme is implemented but such listing will be maintained in the event that the Scheme is not approved or lapses.

Power Jade has stated that it does not have any intention to seek listing of the KSH Shares in Hong Kong or elsewhere following implementation of the Proposal. Power Jade has stated that it does not have any intention of disposing any of its beneficial interests in the KSH Shares following implementation of the Proposal and that it has no intention of discontinuing any of the existing businesses of the KSH Group.

### **SHARE CERTIFICATES, DEALINGS AND LISTING**

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and extinguished, and all the certificates representing the Scheme Shares will accordingly cease to have effect as documents or evidence of title.

KSH will apply to the Stock Exchange for the withdrawal of listing of the KSH Shares on the Stock Exchange immediately following the Scheme becoming effective. Dealings in the KSH Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Monday, 17th January, 2005 and the listing of the KSH Shares on the Stock Exchange is expected to be withdrawn at 9:30 a.m. on Monday, 24th January, 2005. Please refer to the expected timetable as set out on pages 5 and 6 of this document.

The KSH Shareholders will be notified of the exact dates on which the Scheme and the withdrawal of the listing of the KSH Shares on the Stock Exchange will become effective by press announcement.

If the Scheme is not approved or lapses, it is intended that the listing of the KSH Shares on the Stock Exchange will be maintained.

### **REGISTRATION AND PAYMENT**

If the Scheme becomes effective, cheques for the Cancellation Price will be despatched to the Scheme Shareholders whose names appear on the Register at the Record Time within ten days after the Effective Date.

For the purpose of establishing entitlements to the Cancellation Price, it is proposed that the Register be closed immediately after 4:00 p.m. on Thursday, 20th January, 2005 or such other date as may be notified to the Scheme Shareholders by press announcement. The Scheme Shareholders and/or their respective successors in title should ensure that their KSH Shares are registered or lodged for registration in their names or in the names of their nominees by 4:00 p.m. on Thursday, 20th January, 2005.

Assuming that the Scheme becomes effective on Friday, 21st January, 2005 (Bermuda time), cheques for cash entitlements to the Cancellation Price are expected to be despatched to the Scheme Shareholders and/or their respective successors on or before Monday, 31st January, 2005. As provided in the Scheme, on or after the day being six calendar months after the posting of such cheques, Power Jade shall have the right to cancel or countermand payment of any such cheques which have not then been cashed or have been returned uncashed, and shall place all monies represented thereby in a deposit account in KSH's name with a licensed bank in Hong Kong

## **EXPLANATORY STATEMENT**

selected by KSH. KSH shall hold such monies until the expiry of six years from the Effective Date and shall, prior to such date, make payments thereout of the sums, together with interest thereon in accordance with Clause 3(e) of the Scheme, to persons who satisfy KSH that they are entitled thereto and that the cheques of which they are payees have not been cashed. On the expiry of six years from the Effective Date, Power Jade shall be released from any further obligation to make any payments under the Scheme and KSH shall thereafter transfer to Power Jade the balance (if any) of the sums then standing to the credit of the deposit account in its name, including accrued interest subject, if applicable, to the deduction of any interest or withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

In the absence of any specific instructions to the contrary received in writing by the Branch Registrar, cheques will be despatched to the persons entitled thereto at their respective addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in the Register in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and neither KSH nor Power Jade will be liable for any loss or delay in transmission.

Settlement of the Cancellation Price to which any of the Scheme Shareholders is entitled under the Scheme will be implemented in full in accordance with the terms of the Scheme without regard to any lien, right of set-off, counterclaim or other analogous right which Power Jade may have or claim to have against any Scheme Shareholders.

### **OVERSEAS SHAREHOLDERS OF KSH**

The making of the Proposal to persons who are not residents in Hong Kong may be subject to the laws of the relevant jurisdictions. Such persons should inform themselves appropriately and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas KSH Shareholders wishing to accept the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdictions in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdictions.

### **TAXATION**

The Scheme Shareholders, whether in Hong Kong or other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Proposal and, in particular, whether the receipt of the Cancellation Price would make such Scheme Shareholders liable to taxation in Hong Kong or other jurisdictions.

### **MEETINGS**

The Supreme Court has directed that the Court Meeting be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme, with or without modification. In so far as the statutory requirement for the sanction of the Scheme by the Supreme Court is concerned, a resolution for the approval of the Scheme will be deemed to have been passed if a majority in number representing not less than three-fourths in value of the Scheme Shares held by the KSH Independent Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme.

Under Rule 2.10 of the Takeovers Code, however, such a resolution will only be considered to have been passed if (i) the Scheme is approved by at least 75% of the votes attaching to the KSH Shares of the KSH Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast against the resolution at the Court Meeting is not more than 10% of all the KSH Shares held by all of the KSH Independent Shareholders (i.e. not more than 37,322,736 KSH Shares, based on 373,227,369 KSH Shares held by the KSH Independent Shareholders as at the Latest Practicable Date).

## **EXPLANATORY STATEMENT**

As at the Latest Practicable Date, Power Jade owned 513,746,047 KSH Shares, representing approximately 53.52% of the issued share capital of KSH. The KSH Shares held by Power Jade will not form part of the Scheme Shares. In view of the interests of Power Jade in the Proposal, Power Jade and party acting in concert with it, being Good System, which owned 72,926,000 KSH Shares, representing approximately 7.60% of the issued share capital of KSH, as at the Latest Practicable Date, will not be entitled to attend in their capacity as KSH Independent Shareholders or vote at the Court Meeting. However, the KSH Shares owned by Good System will still form part of the Scheme Shares. The number of Scheme Shares will be 446,153,369 KSH Shares, representing approximately 46.48% of the issued share capital of KSH, as at the Latest Practicable Date.

The Special General Meeting has been convened to be held immediately following the Court Meeting for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme. The special resolution will be passed provided that it is approved by a majority of at least three-fourths of the votes cast by the KSH Shareholders present and voting, in person or by proxy, at the Special General Meeting. All KSH Shareholders will be entitled to attend and vote on such special resolution at the Special General Meeting. Power Jade and Good System have indicated that if the Scheme is approved at the Court Meeting, they will vote in favour of the special resolution to be proposed at the Special General Meeting.

Notices of the Meetings are set out on pages 134 to 137 of this document. The Meetings will be held on Wednesday, 5th January, 2005 at the respective times specified in such notices at Concord Room 2-3, 8th Floor, Renaissance Harbour View Hotel, No. 1 Harbour Road, Wanchai, Hong Kong.

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

Pursuant to bye-law 60 of the bye-laws of KSH, a resolution put to the vote of a general meeting of KSH Shareholders shall be decided on a show of hands, unless before, or on the declaration of the result of, the show of hands, a poll is demanded by:

- (a) the chairman of the general meeting of KSH Shareholders; or
- (b) not less than three KSH Shareholders present in person (or, in the case of a KSH Shareholder being a corporation, by its duly authorised representative) or by proxy and having the right to vote at the meeting; or
- (c) a KSH Shareholder or KSH Shareholders present in person (or, in the case of a KSH Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than 10% of the total voting rights of all KSH Shareholders having the right to vote at the meeting; or
- (d) a KSH Shareholder or KSH Shareholders present in person (or, in the case of a KSH Shareholder being a corporation, by its duly authorised representative) or by proxy and holding shares in KSH conferring a right to vote at the general meeting being shares on which an aggregate sum has been paid up equal to not less than 10% of the total sum paid up on all the KSH Shares conferring that right.

### **ACTION TO BE TAKEN BY KSH SHAREHOLDERS**

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the Special General Meeting are enclosed with this document.

## EXPLANATORY STATEMENT

Whether or not you are able to attend any of the Meetings in person, the KSH Independent Shareholders are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the KSH Shareholders are strongly urged to complete and sign the enclosed white form of proxy in respect of the Special General Meeting in accordance with the instructions respectively printed thereon and to deposit them with the Branch Registrar at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible, but in any case not later than the following respective times:

- (a) in the case of the pink form of proxy for use at the Court Meeting, the KSH Independent Shareholders are requested to deposit this form of proxy not later than 10:00 a.m. on Monday, 3rd January, 2005, but if it is not so deposited, it may be handed to the Chairman of the Court Meeting at the Court Meeting; and
- (b) in order to be valid, the white form of proxy for use at the Special General Meeting must be deposited by the KSH Shareholders not later than 10:30 a.m. on Monday, 3rd January, 2005.

A self-addressed, pre-paid envelope is enclosed for your convenience for returning by post (from within Hong Kong only) your completed forms of proxy. The completion and return of a form of proxy for any of the Meetings will not preclude you from attending the relevant Meetings and voting in person if you so wish. In the event that you attend a Meeting after having deposited the relevant form of proxy, that form of proxy will be deemed to have been revoked.

For the purpose of determining the entitlements of the KSH Independent Shareholders to attend and vote at the Court Meeting and the KSH Shareholders to attend and vote at the Special General Meeting, the Register will be closed from Friday, 31st December, 2004 to Wednesday, 5th January, 2005 (both dates inclusive). During such period no transfer of the KSH Shares will be effected. In order to be entitled to attend and vote at the Court Meeting or the Special General Meeting, all transfers accompanied by the relevant share certificates must be deposited with the Branch Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 30th December, 2004.

Assuming that all of the Conditions are fulfilled or, where applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be in the morning on Friday, 21st January, 2005 (Bermuda time) which will be the evening on Friday, 21st January, 2005 (Hong Kong time)). Further press announcements will be made giving details of the results of the Meetings and, if all the resolutions are passed at the Meetings, the last day for dealing in the KSH Shares, the Record Time, the result of the hearing of the petition for the sanction of the Scheme by the Supreme Court, the Effective Date and the date of the withdrawal of the listing of the KSH Shares on the Stock Exchange.

### **RECOMMENDATIONS**

Your attention is drawn to the recommendation of Somerley to the Independent Board Committee in relation to the Proposal set out in its letter on pages 13 to 33 of this document and to the recommendation of the Independent Board Committee to the KSH Independent Shareholders in relation to the Proposal set out in its letter on page 12 of this document.

### **FURTHER INFORMATION**

Further information is set out in the Appendices to, and elsewhere in, this document, all of which form part of this Explanatory Statement.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 1. THREE YEAR FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results of the KSH Group for each of the three financial years ended 30th November, 2001, 2002 and 2003:

|                                   | <b>For the year ended 30th November,</b> |                  |                 |
|-----------------------------------|--|------------------|-----------------|
|                                   | <b>2003</b>                              | 2002             | 2001            |
|                                   | <b>HK\$'000</b>                          | HK\$'000         | HK\$'000        |
|                                   |  | (Restated)       |                 |
| Turnover                          | <u><b>144,618</b></u>                    | <u>49,044</u>    | <u>141,269</u>  |
| Loss before taxation              | <b>(57,419)</b>                          | (300,731)        | (98,558)        |
| Taxation                          | <b>(18,703)</b>                          | 7,478            | 26,441          |
| Loss after taxation               | <b>(76,122)</b>                          | (293,253)        | (72,117)        |
| Minority interests                | <b>2,510</b>                             | 36,946           | 1,145           |
| Loss attributable to shareholders | <u><b>(73,612)</b></u>                   | <u>(256,307)</u> | <u>(70,972)</u> |
| Loss per share (HK cents)         | <u><b>(7.7)</b></u>                      | <u>(26.7)</u>    | <u>(7.4)</u>    |
| Dividend                          | <u><b>Nil</b></u>                        | <u>Nil</u>       | <u>Nil</u>      |
| Dividend per share                | <u><b>Nil</b></u>                        | <u>Nil</u>       | <u>Nil</u>      |



## **APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP**

### **2. AUDITED CONSOLIDATED ACCOUNTS OF THE KSH GROUP FOR THE YEAR ENDED 30th NOVEMBER, 2003**

The following information has been extracted from the audited consolidated accounts of the KSH Group for the year ended 30th November, 2003. Reference to page number in this paragraph refers to the page number of the annual report of KSH for the year ended 30th November, 2003.

#### **AUDITORS' REPORT**

##### **TO THE MEMBERS OF THE KWONG SANG HONG INTERNATIONAL LIMITED**

*(Incorporated in Bermuda with limited liability)*

We have audited the financial statements on pages 35 to 99 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's Directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### **OPINION**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30th November, the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**  
Hong Kong, 15th March, 2004

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### CONSOLIDATED INCOME STATEMENT

For the year ended 30th November, 2003

|                                   | Notes | 2003<br>HK\$'000          | 2002<br>HK\$'000<br>(Restated) |
|-----------------------------------|-------|---------------------------|--------------------------------|
| Turnover                          | 4     | 144,618                   | 49,044                         |
| Cost of sales                     |       | <u>(135,976)</u>          | <u>(31,479)</u>                |
| Gross profit                      |       | 8,642                     | 17,565                         |
| Other operating income            | 6     | 57,132                    | 7,803                          |
| Selling and marketing expenses    |       | (1,422)                   | (2,457)                        |
| Administrative expenses           |       | (10,548)                  | (9,794)                        |
| Other operating expenses          | 7     | <u>(19,435)</u>           | <u>(163,963)</u>               |
| Profit (loss) from operations     | 8     | 34,369                    | (150,846)                      |
| Finance costs                     | 9     | (8,231)                   | (2,526)                        |
| Investment income                 | 10    | 1,632                     | 5,464                          |
| Other losses                      | 11    | (87,121)                  | (151,730)                      |
| Share of results of associates    |       | <u>1,932</u>              | <u>(1,093)</u>                 |
| Loss before taxation              |       | (57,419)                  | (300,731)                      |
| Taxation                          | 15    | <u>(18,703)</u>           | <u>7,478</u>                   |
| Loss after taxation               |       | (76,122)                  | (293,253)                      |
| Minority interests                |       | <u>2,510</u>              | <u>36,946</u>                  |
| Loss attributable to shareholders |       | <u><u>(73,612)</u></u>    | <u><u>(256,307)</u></u>        |
| Loss per share                    | 17    |                           |                                |
| Basic                             |       | <u><u>(7.7) cents</u></u> | <u><u>(26.7) cents</u></u>     |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### CONSOLIDATED BALANCE SHEET

At 30th November, 2003

|   | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000<br>(Restated) |
|---|-------|------------------|--------------------------------|
| <b>Non-Current Assets</b>                         |       |                  |                                |
| Investment properties                             | 18    | 499,900          | 477,300                        |
| Plant and equipment                               | 19    | 1,237            | 383                            |
| Properties held for development                   | 20    | 149,148          | 149,000                        |
| Negative goodwill                                 | 21    | –                | (2,459)                        |
| Interests in associates                           | 23    | 43,102           | 162,817                        |
| Investments in securities                         | 24    | 7,485            | 13,455                         |
| Amounts due from investee companies               | 25    | 110,925          | 105,692                        |
| Amounts due from minority shareholders            | 26    | 170              | 698                            |
| Loans receivable – due after one year             | 27    | 27,369           | 18,549                         |
| Deferred tax assets                               | 28    | 4,290            | 1,636                          |
|   |       | <b>843,626</b>   | 927,071                        |
| <b>Current Assets</b>                             |       |                  |                                |
| Properties under development for sale             | 29    | 1,002,862        | 898,843                        |
| Properties held for sale                          | 30    | 49,728           | 62,943                         |
| Inventories                                       | 31    | 1,256            | 1,218                          |
| Loans receivable – due within one year            | 27    | 8,208            | 9,170                          |
| Accounts receivable, deposits and prepayments     | 32    | 4,725            | 8,018                          |
| Cash in stakeholders' accounts held by solicitors |       | 438              | 414                            |
| Pledged deposits                                  | 45    | 335              | –                              |
| Bank balances and cash                            |       | 22,005           | 14,357                         |
|   |       | <b>1,089,557</b> | 994,963                        |
| <b>Current Liabilities</b>                        |       |                  |                                |
| Accounts payable, deposits received and accruals  | 33    | 70,785           | 54,292                         |
| Tax liabilities                                   |       | 2,270            | 4,708                          |
| Borrowings – due within one year                  | 34    | 17,492           | 97,192                         |
| Provisions  | 49    | 13,354           | 13,354                         |
|   |       | <b>103,901</b>   | 169,546                        |
| <b>Net Current Assets</b>                         |       | <b>985,656</b>   | 825,417                        |
|   |       | <b>1,829,282</b> | 1,752,488                      |

|   |
|---|
| <b>APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP</b> |
|---|

**CONSOLIDATED BALANCE SHEET**

At 30th November, 2003

|                                      | Notes | 2003<br>HK\$'000           | 2002<br>HK\$'000<br>(Restated) |
|--------------------------------------|-------|----------------------------|--------------------------------|
| <b>Capital and Reserves</b>          |       |                            |                                |
| Share capital                        | 35    | <b>383,960</b>             | 383,960                        |
| Reserves                             | 36    | <b>899,816</b>             | 973,603                        |
|                                      |       | <hr style="width: 100%;"/> | <hr style="width: 100%;"/>     |
|                                      |       | <b>1,283,776</b>           | 1,357,563                      |
|                                      |       | <hr style="width: 100%;"/> | <hr style="width: 100%;"/>     |
| Minority Interests                   |       | <b>(34,965)</b>            | (5,521)                        |
|                                      |       | <hr style="width: 100%;"/> | <hr style="width: 100%;"/>     |
| <b>Non-Current Liabilities</b>       |       |                            |                                |
| Loans from ultimate holding company  | 38    | <b>152,650</b>             | 30,395                         |
| Amounts due to minority shareholders | 39    | <b>146,200</b>             | 147,999                        |
| Amounts due to associates            | 40    | –                          | 280                            |
| Borrowings – due after one year      | 34    | <b>239,465</b>             | 200,329                        |
| Deferred tax liabilities             | 28    | <b>42,156</b>              | 21,443                         |
|                                      |       | <hr style="width: 100%;"/> | <hr style="width: 100%;"/>     |
|                                      |       | <b>580,471</b>             | 400,446                        |
|                                      |       | <hr style="width: 100%;"/> | <hr style="width: 100%;"/>     |
|                                      |       | <b>1,829,282</b>           | 1,752,488                      |
|                                      |       | <hr style="width: 100%;"/> | <hr style="width: 100%;"/>     |

The financial statements on pages 35 to 99 were approved and authorised for issue by the Board of Directors on 15th March, 2004 and are signed on its behalf by:

**Thomas Lau, Luen-hung**  
*Director*

**Simon Lo, Lin-shing**  
*Director*

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### BALANCE SHEET

At 30th November, 2003

|   | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000<br>(Restated) |
|---|-------|------------------|--------------------------------|
| <b>Non-Current Assets</b>                     |       |                  |                                |
| Interests in subsidiaries                     | 22    | 1,437,618        | 1,381,634                      |
| Investments in securities                     | 24    | 1,500            | –                              |
| Deferred tax assets                           | 28    | 292              | 184                            |
|   |       | <b>1,439,410</b> | 1,381,818                      |
| <b>Current Assets</b>                         |       |                  |                                |
| Accounts receivable, deposits and prepayments |       | 28               | 27                             |
| Bank balances and cash                        |       | 6,009            | 3,165                          |
|   |       | <b>6,037</b>     | 3,192                          |
| <b>Current Liability</b>                      |       |                  |                                |
| Accounts payable and accruals                 |       | 5,938            | 5,989                          |
|   |       | <b>99</b>        | (2,797)                        |
| <b>Net Current Assets (Liabilities)</b>       |       | <b>99</b>        | (2,797)                        |
|   |       | <b>1,439,509</b> | 1,379,021                      |
| <b>Capital and Reserves</b>                   |       |                  |                                |
| Share capital                                 | 35    | 383,960          | 383,960                        |
| Reserves                                      | 36    | 807,660          | 993,594                        |
|   |       | <b>1,191,620</b> | 1,377,554                      |
| <b>Non-Current Liability</b>                  |       |                  |                                |
| Amounts due to subsidiaries                   | 41    | 247,889          | 1,467                          |
|   |       | <b>1,439,509</b> | 1,379,021                      |

**Thomas Lau, Luen-hung**  
*Director*

**Simon Lo, Lin-shing**  
*Director*

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th November, 2003

|   | <b>2003</b>             | 2002                    |
|---|-------------------------|-------------------------|
|   | <b>HK\$'000</b>         | HK\$'000<br>(Restated)  |
| Total shareholders' funds at 1st December                                     |                         |                         |
| – as originally stated  | <b>1,377,370</b>        | 1,643,325               |
| – prior year adjustment   | <b>(19,807)</b>         | (28,494)                |
|   | <hr/>                   | <hr/>                   |
| – as restated   | <b>1,357,563</b>        | 1,614,831               |
| Loss for the year   | <b>(73,612)</b>         | (256,307)               |
| Exchange released to the income statement on disposal of an associate         | <b>159</b>              | –                       |
| Net loss not recognised in the income statement                               |                         |                         |
| – exchange gain (loss) on translation of financial statements of subsidiaries | <b>242</b>              | (93)                    |
| – share of associates' exchange reserves movement during the year             | <b>(576)</b>            | (868)                   |
|   | <hr/>                   | <hr/>                   |
|   | <b>(334)</b>            | (961)                   |
| Total shareholders' funds at 30th November                                    | <b><u>1,283,776</u></b> | <b><u>1,357,563</u></b> |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th November, 2003

|  | <b>2003</b>     | <b>2002</b>     |
|--|-----------------|-----------------|
|  | <b>HK\$'000</b> | <b>HK\$'000</b> |
| Loss before taxation   | <b>(57,419)</b> | (300,731)       |
| Adjustments for:   |                 |                 |
| Depreciation   | <b>221</b>      | 157             |
| Dividend income  | –               | (1,818)         |
| Interest expenses  | <b>8,231</b>    | 2,526           |
| Interest income  | <b>(1,874)</b>  | (2,347)         |
| Forfeiture of sales deposits received                                    | <b>(2,368)</b>  | (3,741)         |
| Forfeiture of unclaimed dividends  | <b>(2,376)</b>  | –               |
| (Net surplus) deficit on revaluation of investment properties            | <b>(45,100)</b> | 69,300          |
| Loss on disposal of investment properties                                | <b>73</b>       | –               |
| Impairment loss recognised in respect of properties held for development | –               | 66,114          |
| Allowance for properties held for sale                                   | <b>3,580</b>    | 12,795          |
| Impairment loss on amounts due from associates                           | <b>86,960</b>   | 149,672         |
| Impairment loss on interest in an associate                              | –               | 2,058           |
| Share of results of associates   | <b>(1,932)</b>  | 1,093           |
| Loss on disposal of an associate   | <b>161</b>      | –               |
| (Write-back of) provision for other investments                          | <b>(1,500)</b>  | 1,500           |
| Unrealised holding loss (gain) on other investments                      | <b>1,742</b>    | (2,799)         |
| Allowance for loans receivable   | <b>1,900</b>    | 12,521          |
| Allowance for doubtful debts   | <b>283</b>      | 176             |
| Allowance for obsolete inventories                                       | –               | 63              |
| Release of negative goodwill   | <b>(2,537)</b>  | (137)           |
| (Gain) loss on disposals of plant and equipment                          | <b>(2)</b>      | 589             |
|  | <hr/>           | <hr/>           |
| Operating cash flow before movements in working capital                  | <b>(11,957)</b> | 6,991           |
| Increase in properties under development for sale                        | <b>(49,228)</b> | –               |
| Decrease in properties held for sale                                     | <b>114,643</b>  | 19,104          |
| (Increase) decrease in inventories                                       | <b>(38)</b>     | 736             |
| Decrease (increase) in accounts receivable, deposits and prepayments     | <b>2,086</b>    | (3,266)         |
| (Increase) decrease in cash in stakeholders' accounts held by solicitors | <b>(24)</b>     | 5,094           |
| Decrease in accounts payable, deposits received and accruals             | <b>(24,946)</b> | (8,027)         |
|  | <hr/>           | <hr/>           |
| Cash generated from operations   | <b>30,536</b>   | 20,632          |
| Net current tax paid   | <b>(3,173)</b>  | (1,789)         |
| Dividend paid to minority shareholders                                   | –               | (1,365)         |
|  | <hr/>           | <hr/>           |
| <b>NET CASH FROM OPERATING ACTIVITIES</b>                                | <b>27,363</b>   | 17,478          |
|  | <hr/>           | <hr/>           |

**APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP**

|  | Notes | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|-------|------------------|------------------|
| <b>INVESTING ACTIVITIES</b>  |       |                  |                  |
| Payments for properties held for development   |       | (148)            | (356,280)        |
| Purchase of plant and equipment  |       | (1,075)          | (974)            |
| Acquisition of subsidiaries (net of cash and cash equivalents acquired)              | 42    | (122,627)        | –                |
| Acquisition of additional interest in a subsidiary                                   |       | (12,900)         | –                |
| Advances to mortgagees   |       | (12,673)         | –                |
| Increase in pledged deposits   |       | (104)            | –                |
| Repayment from mortgagees  |       | 3,793            | 8,845            |
| Repayment from (advances to) investee companies                                      |       | 495              | (33)             |
| Net repayment from associates  |       | 31,526           | 20,294           |
| Interest received  |       | 1,874            | 2,347            |
| Dividend received  |       | –                | 1,818            |
| Dividend received from associates  |       | 2,387            | 1,000            |
| Proceeds from disposal of investment properties                                      |       | 22,427           | –                |
| Proceeds from disposals of plant and equipment                                       |       | 2                | –                |
| Net proceeds on disposal of subsidiaries (net of cash and cash equivalents disposed) | 43    | 775              | –                |
|  |       | <hr/>            | <hr/>            |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   |       | <b>(86,248)</b>  | <b>(322,983)</b> |
| <b>FINANCING ACTIVITIES</b>  |       |                  |                  |
| Net advances of borrowings excluding bank overdrafts                                 |       | 12,599           | 160,842          |
| Net advances from ultimate holding company   |       | 122,255          | 30,395           |
| Net repayment to minority shareholders   |       | (1,799)          | (2,902)          |
| Interest paid  |       | (13,321)         | (3,843)          |
| Repayment to an investee company   |       | –                | (803)            |
| Repayment to associates  |       | (280)            | (709)            |
|  |       | <hr/>            | <hr/>            |
| <b>NET CASH FROM FINANCING ACTIVITIES</b>  |       | <b>119,454</b>   | <b>182,980</b>   |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                          |       |                  |                  |
|  |       | <b>60,569</b>    | <b>(122,525)</b> |
| <b>CASH AND CASH EQUIVALENTS AT 1ST DECEMBER</b>                                     |       |                  |                  |
|  |       | <b>(38,806)</b>  | <b>83,816</b>    |
| Effect of exchange rate changes  |       | 242              | (97)             |
|  |       | <hr/>            | <hr/>            |
| <b>CASH AND CASH EQUIVALENTS AT 30TH NOVEMBER</b>                                    |       | <b>22,005</b>    | <b>(38,806)</b>  |
| <b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>                         |       |                  |                  |
| Bank balances and cash   |       | 22,005           | 14,357           |
| Bank overdrafts  |       | –                | (53,163)         |
|  |       | <hr/>            | <hr/>            |
|  |       | <b>22,005</b>    | <b>(38,806)</b>  |
|  |       | <hr/> <hr/>      | <hr/> <hr/>      |



**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30th November, 2003

**1. GENERAL**

The Company is a public listed company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The ultimate holding company is Power Jade Capital Limited (Corporate name: Power Jade Limited) ("Power Jade"), an International Business Company incorporated in the British Virgin Islands. It is a company indirectly owned as to 50% by Chinese Estates Holdings Limited ("Chinese Estates"), a company listed on the Stock Exchange, and as to 50% by Solar Chain Limited, a private limited company beneficially owned by Ms. Anita Shum, Yuk-ming.

The Company's principal activity is investment holding and the activities of its principal subsidiaries and associates are set out in notes 51 and 52 respectively.

**2. CHANGE IN ACCOUNTING POLICY**

In the current year, the Group has adopted Statements of Standard Accounting Practice ("SSAP") No. 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants. The principal effect of the implementation of the revised standard is in relation to deferred tax. It requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. This change in accounting policy has resulted in an increase in accumulated losses of HK\$19,807,000 as at 1st December, 2002 (a decrease in accumulated profits of HK\$28,494,000 as at 1st December, 2001) and an increase in the loss for the year of HK\$18,059,000 (2002: a decrease in the loss for the year of HK\$8,687,000).

**3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties and investments in securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

**Basis of Consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th November each year.

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

**Negative Goodwill**

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

Negative goodwill is presented as a deduction from assets and is released to the income statement based on an analysis of the circumstances from which the balance resulted.

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

## **APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP**

Negative goodwill arising on the acquisition of an associate is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet as a deduction from assets.

### **Investments in Subsidiaries**

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

### **Interests in Associates**

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

### **Investments in Securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

### **Impairment**

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

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

### **Investment Properties**

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market values. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

### **Plant and Equipment**

Plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

Depreciation is provided to write off the cost of plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at rates varying from 10% to 20% per annum.

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

### **Properties Held for Development**

Properties held for development represent properties pending for any definite intention whether to develop for long-term retention or for sale, and are stated at cost, less any identified impairment loss.

### **Properties Under Development for Sale**

Properties under development for sale are stated at the lower of cost, and net realisable value.

### **Properties Held for Sale**

Properties held for sale are stated at the lower of cost and net realisable value.

### **Inventories**

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

### **Revenue Recognition**

#### *Sales of properties*

Revenue from sales of properties is recognised on the execution of a binding sales agreement and/or when the relevant occupation permit is issued by the binding authority, whichever is the later.

#### *Others*

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Sales of cosmetics are recognised when goods are delivered and titles have been passed.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

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

### **Taxation**

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

The tax currently payable is based on the results for the year as adjusted for items which are non-taxable or non-deductible.

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

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

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

### Foreign Currencies

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

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

### Operating Leases

Leases of assets in respect of which substantially all the rewards and risks of ownership remain with the lessors are accounted for as operating leases. Rental paid and payable on such operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expenses in the year in which they are incurred.

### Retirement Benefits Scheme

The retirement benefits costs which represent the current year contributions payable in respect of the Group's defined contribution scheme are charged as expenses in the income statement as they fall due.

## 4. TURNOVER

Turnover represents the aggregate of the amounts received and receivable from sales of properties, property rental income and cosmetics goods sold to outside customers less returns.

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business Segments

For management purposes, the Group is currently organised into three operating divisions – property development, property leasing and cosmetics. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

|                      |   |   |
|----------------------|---|---|
| Property development | – | Property development and sales of properties    |
| Property leasing     | – | Property rental                                 |
| Cosmetics            | – | Manufacturing and trading in cosmetics products |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

Segment information about these businesses is presented below.

### INCOME STATEMENT

*For the year ended 30th November, 2003*

|                                | Property<br>development<br>HK\$'000 | Property<br>leasing<br>HK\$'000 | Cosmetics<br>HK\$'000 | Other<br>operations<br>HK\$'000 | Consolidated<br>HK\$'000 |
|--------------------------------|-------------------------------------|---------------------------------|-----------------------|---------------------------------|--------------------------|
| <b>SEGMENT REVENUE</b>         | <u>111,242</u>                      | <u>28,948</u>                   | <u>4,428</u>          | <u>–</u>                        | <u>144,618</u>           |
| <b>SEGMENT RESULT</b>          | <u>(16,031)</u>                     | <u>68,802</u>                   | <u>1,495</u>          | <u>–</u>                        | <u>54,266</u>            |
| Unallocated corporate expenses |                                     |                                 |                       |                                 | (19,897)                 |
| Profit from operations         |                                     |                                 |                       |                                 | 34,369                   |
| Finance costs                  |                                     |                                 |                       |                                 | (8,231)                  |
| Investment income              |                                     |                                 |                       |                                 | 1,632                    |
| Other losses                   | (87,260)                            | 321                             | –                     | (182)                           | (87,121)                 |
| Share of results of associates | (359)                               | 1,129                           | (51)                  | 1,213                           | 1,932                    |
| Loss before taxation           |                                     |                                 |                       |                                 | (57,419)                 |
| Taxation                       |                                     |                                 |                       |                                 | (18,703)                 |
| Loss after taxation            |                                     |                                 |                       |                                 | <u>(76,122)</u>          |

### BALANCE SHEET

*At 30th November, 2003*

|                                   | Property<br>development<br>HK\$'000 | Property<br>leasing<br>HK\$'000 | Cosmetics<br>HK\$'000 | Other<br>operations<br>HK\$'000 | Consolidated<br>HK\$'000 |
|-----------------------------------|-------------------------------------|---------------------------------|-----------------------|---------------------------------|--------------------------|
| <b>ASSETS</b>                     |                                     |                                 |                       |                                 |                          |
| Segment assets                    | 1,263,074                           | 509,590                         | 5,250                 | –                               | 1,777,914                |
| Interests in associates           | 31,481                              | 8,928                           | 640                   | 2,053                           | 43,102                   |
| Unallocated corporate assets      |                                     |                                 |                       |                                 | 112,167                  |
| Consolidated total assets         |                                     |                                 |                       |                                 | <u>1,933,183</u>         |
| <b>LIABILITIES</b>                |                                     |                                 |                       |                                 |                          |
| Segment liabilities               | 412,591                             | 72,076                          | 165                   | –                               | 484,832                  |
| Unallocated corporate liabilities |                                     |                                 |                       |                                 | 199,540                  |
| Consolidated total liabilities    |                                     |                                 |                       |                                 | <u>684,372</u>           |

### OTHER INFORMATION

*For the year ended 30th November, 2003*

|   | Property<br>development<br>HK\$'000 | Property<br>leasing<br>HK\$'000 | Cosmetics<br>HK\$'000 | Other<br>operations<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|-------------------------------------|---------------------------------|-----------------------|---------------------------------|--------------------------|
| Capital additions                                       | 148                                 | 310                             | 765                   | –                               | 1,223                    |
| Depreciation  | –                                   | 110                             | 94                    | 17                              | 221                      |
| Impairment losses recognised<br>in the income statement | 87,260                              | –                               | –                     | 21                              | 87,281                   |
| Other non-cash expenses                                 | <u>6,777</u>                        | <u>4,083</u>                    | <u>–</u>              | <u>606</u>                      | <u>11,466</u>            |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### INCOME STATEMENT

*For the year ended 30th November, 2002*

|                                | Property<br>development<br>HK\$'000 | Property<br>leasing<br>HK\$'000 | Cosmetics<br>HK\$'000 | Other<br>operations<br>HK\$'000 | Consolidated<br>HK\$'000<br>(Restated) |
|--------------------------------|-------------------------------------|---------------------------------|-----------------------|---------------------------------|--|
| <b>SEGMENT REVENUE</b>         | 16,800                              | 25,164                          | 7,080                 | –                               | 49,044                                 |
| <b>SEGMENT RESULT</b>          | (85,354)                            | (50,112)                        | 1,776                 | –                               | (133,690)                              |
| Unallocated corporate expenses |                                     |                                 |                       |                                 | (17,156)                               |
| Loss from operations           |                                     |                                 |                       |                                 | (150,846)                              |
| Finance costs                  |                                     |                                 |                       |                                 | (2,526)                                |
| Investment income              |                                     |                                 |                       |                                 | 5,464                                  |
| Other losses                   | (150,780)                           | 1,109                           | –                     | (2,059)                         | (151,730)                              |
| Share of results of associates | (240)                               | –                               | (1,096)               | 243                             | (1,093)                                |
| Loss before taxation           |                                     |                                 |                       |                                 | (300,731)                              |
| Taxation                       |                                     |                                 |                       |                                 | 7,478                                  |
| Loss after taxation            |                                     |                                 |                       |                                 | (293,253)                              |

### BALANCE SHEET

*At 30th November, 2002*

|                                   | Property<br>development<br>HK\$'000 | Property<br>leasing<br>HK\$'000 | Cosmetics<br>HK\$'000 | Other<br>operations<br>HK\$'000 | Consolidated<br>HK\$'000<br>(Restated) |
|-----------------------------------|-------------------------------------|---------------------------------|-----------------------|---------------------------------|--|
| <b>ASSETS</b>                     |                                     |                                 |                       |                                 |  |
| Segment assets                    | 1,176,347                           | 482,279                         | 4,785                 | –                               | 1,663,411                              |
| Interests in associates           | 150,542                             | 8,141                           | 694                   | 3,440                           | 162,817                                |
| Unallocated corporate assets      |                                     |                                 |                       |                                 | 95,806                                 |
| Consolidated total assets         |                                     |                                 |                       |                                 | 1,922,034                              |
| <b>LIABILITIES</b>                |                                     |                                 |                       |                                 |  |
| Segment liabilities               | 255,792                             | 50,824                          | 573                   | –                               | 307,189                                |
| Unallocated corporate liabilities |                                     |                                 |                       |                                 | 262,803                                |
| Consolidated total liabilities    |                                     |                                 |                       |                                 | 569,992                                |

### OTHER INFORMATION

*For the year ended 30th November, 2002*

|   | Property<br>development<br>HK\$'000 | Property<br>leasing<br>HK\$'000 | Cosmetics<br>HK\$'000 | Other<br>operations<br>HK\$'000 | Consolidated<br>HK\$'000 |
|---|-------------------------------------|---------------------------------|-----------------------|---------------------------------|--------------------------|
| Capital additions                                       | 358,564                             | 305                             | 669                   | –                               | 359,538                  |
| Depreciation  | –                                   | 13                              | 108                   | 36                              | 157                      |
| Impairment losses recognised<br>in the income statement | 216,894                             | –                               | –                     | 3,559                           | 220,453                  |
| Other non-cash expenses                                 | 23,207                              | 69,476                          | 652                   | 2,108                           | 95,443                   |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### Geographical Segments

The Group's operations are located in Hong Kong and elsewhere in the People's Republic of China (the "PRC"). The Group's property development and trading, and cosmetics divisions are located in Hong Kong. Property leasing is carried out in Hong Kong and the PRC.

The following table provides an analysis of the Group's revenue and contribution to profit (loss) from operations by the geographical market for the years, irrespective of the origin of the goods/services:

|                                | Revenue by<br>geographical market |                  | Contribution to<br>profit (loss)<br>from operations |                  |
|--------------------------------|-----------------------------------|------------------|---|------------------|
|                                | 2003<br>HK\$'000                  | 2002<br>HK\$'000 | 2003<br>HK\$'000                                    | 2002<br>HK\$'000 |
| Hong Kong                      | 122,334                           | 32,531           | (13,309)  | (103,265)        |
| Elsewhere in the PRC           | 22,284                            | 16,513           | 67,575  | (30,425)         |
|                                | <b>144,618</b>                    | <b>49,044</b>    | <b>54,266</b>                                       | <b>(133,690)</b> |
| Unallocated corporate expenses |                                   |                  | <b>(19,897)</b>                                     | <b>(17,156)</b>  |
| Profit (loss) from operations  |                                   |                  | <b>34,369</b>                                       | <b>(150,846)</b> |

The following is an analysis of the carrying amount of segment assets at the balance sheet dates and capital additions during the years analysed by the geographical market in which the assets are located:

|                      | Carrying amount<br>of segment assets |                                | Capital additions |                  |
|----------------------|--------------------------------------|--------------------------------|-------------------|------------------|
|                      | 2003<br>HK\$'000                     | 2002<br>HK\$'000<br>(Restated) | 2003<br>HK\$'000  | 2002<br>HK\$'000 |
| Hong Kong            | 1,513,771                            | 1,553,921                      | 913               | 359,233          |
| Elsewhere in the PRC | 419,412                              | 368,113                        | 310               | 305              |
|                      | <b>1,933,183</b>                     | <b>1,922,034</b>               | <b>1,223</b>      | <b>359,538</b>   |

### 6. OTHER OPERATING INCOME

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Included in other operating income:                               |                  |                  |
| Net surplus on revaluation of investment properties               | 45,100           | –                |
| Negative goodwill released  | 2,537            | 137              |
| Forfeiture of unclaimed dividends                                 | 2,376            | –                |
| Forfeiture of sales deposits received                             | 2,368            | 3,741            |
| Claims received on price difference from forfeited property sales | –                | 1,231            |
|   | <b>45,100</b>    | <b>5,109</b>     |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 7. OTHER OPERATING EXPENSES

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Legal expenses and compensation in respect of lawsuits                   | 13,882           | 2,644            |
| Allowance for properties held for sale                                   | 3,580            | 12,795           |
| Allowance for loans receivable   | 1,900            | 12,521           |
| Loss on disposal of investment properties                                | 73               | –                |
| Impairment loss recognised in respect of properties held for development | –                | 66,114           |
| Deficit on revaluation of investment properties                          | –                | 69,300           |
| Loss on disposals of plant and equipment                                 | –                | 589              |
|  | <b>19,435</b>    | <b>163,963</b>   |
|  | <b>19,435</b>    | <b>163,963</b>   |

### 8. PROFIT (LOSS) FROM OPERATIONS

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Profit (loss) from operations has been arrived at after charging: |                  |                  |
| Directors' emoluments (note 12)                                   | 955              | 928              |
| Other staff expenses  | 3,614            | 4,738            |
| Provident fund scheme contributions                               | 122              | 233              |
|   | <b>4,691</b>     | <b>5,899</b>     |
| Auditors' remuneration  | 745              | 846              |
| Depreciation  | 221              | 157              |
| Exchange loss   | 349              | –                |
| Allowance for doubtful debts                                      | 283              | 176              |
| Allowance for obsolete inventories                                | –                | 63               |
|   | <b>1,600</b>     | <b>1,242</b>     |
| and after crediting:  |                  |                  |
| Gross rental income from  |                  |                  |
| – investment properties   | 28,948           | 25,164           |
| – other properties  | 2,208            | 2,304            |
|   | <b>31,156</b>    | <b>27,468</b>    |
| Less: Direct expenses   | <b>(9,668)</b>   | <b>(6,399)</b>   |
| Net rental income   | <b>21,488</b>    | <b>21,069</b>    |
| Exchange gain   | –                | 58               |
|   | <b>21,488</b>    | <b>21,127</b>    |



## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 9. FINANCE COSTS

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Interest on bank loans, overdrafts and other borrowings wholly repayable within five years | 11,731           | 3,843            |
| Other borrowing costs  | 1,590            | –                |
|  | 13,321           | 3,843            |
| Less: Amount capitalised   | (5,090)          | (1,317)          |
|  | 8,231            | 2,526            |

Interest was capitalised in the year at capitalisation rates in the range of 0.76% to 2.19% per annum (2002: 2.32% to 3.09% per annum).

### 10. INVESTMENT INCOME

|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|---|------------------|------------------|
| Interest income                                     | 1,874            | 2,347            |
| Write-back of (provision for) other investments     | 1,500            | (1,500)          |
| Unrealised holding (loss) gain on other investments | (1,742)          | 2,799            |
| Dividend income – unlisted investment               | –                | 1,818            |
|   | 1,632            | 5,464            |
|   | 1,632            | 5,464            |

### 11. OTHER LOSSES

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| Impairment loss on interests in associates |                  |                  |
| – amounts due from associates              | 86,960           | 149,672          |
| – interest in an associate                 | –                | 2,058            |
| Loss on disposal of an associate           | 161              | –                |
|  | 87,121           | 151,730          |
|  | 87,121           | 151,730          |

### 12. DIRECTORS' EMOLUMENTS

|                                     | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|-------------------------------------|------------------|------------------|
| Directors' fees                     |                  |                  |
| Executive Directors                 | 800              | 800              |
| Independent Non-executive Directors | 96               | 78               |
| Non-executive Directors             | 59               | 50               |
|                                     | 955              | 928              |
|                                     | 955              | 928              |

The aggregate emoluments of each of the Directors during the relevant years were within the emoluments band ranging from Nil to HK\$1,000,000.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 13. EMPLOYEE'S EMOLUMENTS

Of the five highest paid individuals in the Group, four (2002: none) were Directors of the Company. The emoluments of the remaining one (2002: five) highest paid individual was as follows:

|                                     | <b>2003</b>     | 2002     |
|-------------------------------------|-----------------|----------|
|                                     | <b>HK\$'000</b> | HK\$'000 |
| Salaries and other benefits         | <b>227</b>      | 1,481    |
| Provident fund scheme contributions | <b>16</b>       | 61       |
|                                     | <b>243</b>      | 1,542    |
|                                     | <b>243</b>      | 1,542    |

The aggregate emoluments of each of these individuals, or Directors during the relevant years were within the emoluments band ranging from Nil to HK\$1,000,000.

During the years ended 30th November, 2003 and 2002, no emoluments were paid by the Group to the five highest paid individuals, or Directors, as an inducement to join or upon joining the Group or as compensation for loss of office.

### 14. PENSION SCHEMES

The Group operates two pension schemes:

1. the provident fund scheme as defined in the Occupational Retirement Schemes Ordinance, Chapter 426 of the laws of Hong Kong (the "ORSO Scheme"); and
2. the provident fund scheme as defined in the Mandatory Provident Fund Schemes Ordinance, Chapter 485 of the laws of Hong Kong (the "MPF Scheme").

Both the ORSO Scheme and the MPF Scheme are defined contribution schemes and the assets of both schemes are managed by their respective trustees accordingly.

The ORSO Scheme is available to the Group's full-time permanent staff employed in Hong Kong on or before 1st August, 2000. Contributions to the ORSO Scheme were made by the Group at 5%, 7.5% or 10% based on the staff's basic salary depending on the length of service. Staff members are entitled to 100% of the Group's contributions together with accrued returns after completing 10 years of service or more, or attaining the retirement age, or are entitled at a reduced scale between 30% to 90% of the Group's contributions after completing a period of service of at least 3 years but less than 10 years. The ORSO Scheme allows any forfeited contributions (made by the Group for any staff member who subsequently leaves the ORSO Scheme prior to vesting fully in such contributions) to be used by the Group to offset the current level of contributions of the Group.

The MPF Scheme is available to all employees aged 18 to 64 and with at least 60 days of service under the employment of the Group in Hong Kong. Contributions are made by the Group at 5% based on the staff's relevant income. The maximum relevant income for contribution purpose is HK\$20,000 per month. Staff members are entitled to 100% of the Group's contributions together with accrued returns irrespective of their length of service with the Group, but the benefits are required by law to be preserved until the retirement age of 65.

In order to provide similar benefits to those who joined the MPF Scheme and the ORSO Scheme, the Group provides an additional portion (the "Top-up Portion") for those who joined the MPF Scheme. The purpose of the Top-up Portion is to match up the benefits of the MPF Scheme with that of the ORSO Scheme by providing those staff under the MPF Scheme with basic salary over HK\$20,000 and/or over 5 years of service. Contributions to the Top-up Portion are made by the Group at 5%, 7.5% or 10% of staff's basic salary less the Group's mandatory contribution under the MPF Scheme as mentioned above.

The Group's cost for the schemes charged to the income statement for the year ended 30th November, 2003 amounted to HK\$122,000 (2002: HK\$233,000). In addition, an amount of forfeited employer's contributions for the ORSO scheme amounted to HK\$67,100 (2002: HK\$28,700) was utilised towards reducing the Group's contributions during the year.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 15. TAXATION

|                                    | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|------------------------------------|------------------|------------------|
| The charge (credit) comprises:     |                  |                  |
| <i>Current tax</i>                 |                  |                  |
| The Company and subsidiaries       |                  |                  |
| – Hong Kong                        |                  |                  |
| current year                       | 416              | 1,057            |
| prior years                        | (185)            | (41)             |
| – Other than Hong Kong             | 217              | –                |
|                                    | 448              | 1,016            |
| Associates                         |                  |                  |
| – Hong Kong                        | 209              | 176              |
| – Other than Hong Kong             | (13)             | 17               |
|                                    | 196              | 193              |
|                                    | 644              | 1,209            |
| <i>Deferred tax</i>                |                  |                  |
| The Company and subsidiaries       |                  |                  |
| – Hong Kong                        |                  |                  |
| current year                       | (2,465)          | 297              |
| attributable to change in tax rate | (124)            | –                |
| – Other than Hong Kong             | 20,648           | (8,984)          |
|                                    | 18,059           | (8,687)          |
|                                    | 18,703           | (7,478)          |

Hong Kong Profits Tax has been provided for at the rate of 17.5% (2002: 16.0%) on the estimated assessable profits for the year. Taxation on profits of subsidiaries and associates arising outside Hong Kong has been provided for in accordance with the relevant local jurisdictions.

Deferred tax has been provided for at the rates that are expected to be applied in the year when the liability is settled or the asset is realised.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

The charge (credit) for the year ended 30th November, 2003 and 30th November, 2002 can be reconciled to the loss before taxation per the income statement as follows:

|   | 2003<br>HK\$'000 | %           | 2002<br>HK\$'000<br>(Restated) | %            |
|---|------------------|-------------|--------------------------------|--------------|
| Loss before taxation  | <u>(57,419)</u>  |             | <u>(300,731)</u>               |              |
| Tax at the Hong Kong income tax rate of 17.5% (2002: 16.0%)                                   | (10,048)         | (17.5)      | (48,117)                       | (16.0)       |
| Tax effect of expenses that are not deductible in determining taxable profit                  | 16,056           | 28.0        | 27,585                         | 9.2          |
| Tax effect of income that are not taxable in determining taxable profit                       | (1,471)          | (2.6)       | (883)                          | (0.3)        |
| Tax effect of deferred tax recognised in respect of tax losses of prior years                 | (2,689)          | (4.7)       | 258                            | 0.1          |
| Tax effect of tax losses not recognised   | 6,484            | 11.3        | 16,884                         | 5.6          |
| Increase in opening deferred tax balances resulting from the change in tax rate               | (124)            | (0.2)       | –                              | –            |
| Overprovision of taxation in prior years  | (185)            | (0.3)       | (41)                           | –            |
| Effect of different tax rates of subsidiaries and associates operating in other jurisdictions | 9,394            | 16.4        | (4,261)                        | (1.4)        |
| Others  | <u>1,286</u>     | <u>2.2</u>  | <u>1,097</u>                   | <u>0.3</u>   |
| Tax charge (credit) and effective tax rate for the year                                       | <u>18,703</u>    | <u>32.6</u> | <u>(7,478)</u>                 | <u>(2.5)</u> |

### 16. DIVIDEND

No interim dividend was declared during the year nor was any final dividend recommended by the Directors.

### 17. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss for the year of HK\$73,612,000 (2002 (restated): HK\$256,307,000) and on 959,899,416 (2002: 959,899,416) ordinary shares in issue during the year.

### 18. INVESTMENT PROPERTIES

|                               | THE GROUP<br>HK\$'000 |
|-------------------------------|-----------------------|
| <b>Valuation</b>              |                       |
| At 1st December, 2002         | 477,300               |
| Net surplus on revaluation    | 45,100                |
| Disposals                     | (22,500)              |
| <b>At 30th November, 2003</b> | <u><u>499,900</u></u> |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

The carrying value of investment properties shown above comprises:

|                         | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|-------------------------|------------------|------------------|
| Land in Hong Kong:      |                  |                  |
| Long lease              | 8,000            | 30,700           |
| Medium lease            | 78,300           | 81,900           |
|                         | 86,300           | 112,600          |
| Land outside Hong Kong: |                  |                  |
| Medium lease            | 413,600          | 364,700          |
|                         | 499,900          | 477,300          |

The Group's investment properties are rented out under operating leases. They are stated at valuation at 30th November, 2003, which was made by Messrs. Norton Appraisals Limited, independent professional valuers, on an open market value basis. The net surplus arising on revaluation has been credited to the income statement.

### 19. PLANT AND EQUIPMENT

|                               | <b>THE GROUP<br/>Machinery,<br/>furniture,<br/>fixtures and<br/>motor vehicles<br/>HK\$'000</b> |
|-------------------------------|---|
| <b>Cost</b>                   |   |
| At 1st December, 2002         | 984   |
| Additions                     | 1,075   |
| Disposals                     | (117)   |
|                               | 1,942   |
| At 30th November, 2003        | 1,942   |
| <b>Depreciation</b>           |   |
| At 1st December, 2002         | (601)   |
| Charge for the year           | (221)   |
| Disposals                     | 117   |
|                               | (705)   |
| At 30th November, 2003        | (705)   |
| <b>Net book values</b>        |   |
| <b>At 30th November, 2003</b> | <b>1,237</b>  |
| At 30th November, 2002        | 383   |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 20. PROPERTIES HELD FOR DEVELOPMENT

|   | THE GROUP        |                  |
|---|------------------|------------------|
|   | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
| <b>Cost</b>   |                  |                  |
| At the beginning of the year                                | 215,982          | 950,233          |
| Additions   | 148              | 358,564          |
| Transfer to properties under development for sale (note 29) | –                | (1,092,815)      |
|   | 216,130          | 215,982          |
| <b>Impairment loss</b>                                      |                  |                  |
| At the beginning of the year                                | (66,982)         | (194,840)        |
| Recognised during the year                                  | –                | (66,114)         |
| Transfer to properties under development for sale (note 29) | –                | 193,972          |
|   | (66,982)         | (66,982)         |
| <b>Carrying amount</b>                                      |                  |                  |
| At 30th November  | 149,148          | 149,000          |

The properties held for development were located in Hong Kong with lease on land held under medium- term.

At the balance sheet date, the Directors reviewed the carrying value of the properties held for development and no additional impairment loss for the year (2002: HK\$66,114,000) was identified by reference to the recoverable amount of the properties held for development.

At the balance sheet date, no interest was capitalised in the cost of properties held for development (2002: nil).

### 21. NEGATIVE GOODWILL

|   | THE GROUP<br>HK\$'000 |
|---|-----------------------|
| <b>Gross amount</b>                     |                       |
| At 1st December, 2002                   | 2,732                 |
| Additions                               | 78                    |
|   | 2,810                 |
| <b>Released to the income statement</b> |                       |
| At 1st December, 2002                   | 273                   |
| Released during the year                | 2,537                 |
|   | 2,810                 |
| <b>Carrying amount</b>                  |                       |
| At 30th November, 2003                  | –                     |
| At 30th November, 2002                  | 2,459                 |

The negative goodwill arose on the Group's acquisitions of additional interests in subsidiaries.

During the year, negative goodwill was fully released to the income statement.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 22. INTERESTS IN SUBSIDIARIES

|   | <b>THE COMPANY</b> |                 |
|---|--------------------|-----------------|
|   | <b>2003</b>        | <b>2002</b>     |
|   | <b>HK\$'000</b>    | <b>HK\$'000</b> |
| Unlisted shares, at cost less impairment loss recognised          | <b>1,981</b>       | 894,710         |
| Amounts due from subsidiaries (net of impairment loss recognised) | <b>1,435,637</b>   | 486,924         |
|   | <b>1,437,618</b>   | 1,381,634       |

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. In the opinion of the Directors, the Company will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current assets.

At the balance sheet date, the Directors reviewed the carrying value of the subsidiaries and a net impairment loss for the year of HK\$625,584,000 (2002: HK\$276,345,000) was identified by reference to the recoverable amount of the underlying assets and liabilities of the subsidiaries.

Particulars of the principal subsidiaries at 30th November, 2003 are set out in note 51.

### 23. INTERESTS IN ASSOCIATES

|   | <b>THE GROUP</b> |                 |
|---|------------------|-----------------|
|   | <b>2003</b>      | <b>2002</b>     |
|   | <b>HK\$'000</b>  | <b>HK\$'000</b> |
| Share of net assets   | <b>2,122</b>     | 3,351           |
| Amounts due from associates (net of impairment loss recognised) | <b>40,980</b>    | 159,466         |
|   | <b>43,102</b>    | 162,817         |

The amounts due from associates are unsecured and have no fixed repayment terms, of which, an amount of HK\$1,143,000 (2002: HK\$1,187,000) bears interest at prime rate and the remaining balance is interest-free. In the opinion of the Directors, the Group will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current assets.

At the balance sheet date, the Directors reviewed the carrying value of the interests in associates and an impairment loss for the year of HK\$86,960,000 (2002: HK\$151,730,000) was identified by reference to the recoverable amount of the underlying assets and liabilities of the associates.

Particulars of the Group's principal associates at 30th November, 2003 are set out in note 52.

The following details have been extracted from the unaudited management accounts of the Group's significant associate, as realigned with the Group's accounting policies.

Operating results for the year ended 30th November:

|   | <b>Dollar Union Limited</b> |                  |
|---|-----------------------------|------------------|
|   | <b>2003</b>                 | <b>2002</b>      |
|   | <b>HK\$'000</b>             | <b>HK\$'000</b>  |
| Turnover                                    | —                           | —                |
| Loss for the year                           | <b>(349,212)</b>            | <b>(587,473)</b> |
| Loss for the year attributable to the Group | —                           | —                |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

Financial position at 30th November:

|   | <b>Dollar Union Limited</b> |                  |
|---|-----------------------------|------------------|
|   | <b>2003</b>                 | <b>2002</b>      |
|   | <b>HK\$'000</b>             | <b>HK\$'000</b>  |
| Non-current asset                         |                             |                  |
| Properties held for development           | –                           | 487,740          |
| Current assets                            |                             |                  |
| Properties under development for sale     | 442,957                     | –                |
| Deposits paid                             | 58,500                      | 108,500          |
| Other current assets                      | 5,252                       | 2,270            |
| Current liabilities                       | (34)                        | (31)             |
| Non-current liabilities                   |                             |                  |
| Shareholders' loans                       | (1,344,500)                 | (1,470,300)      |
| Bank loan                                 | (383,208)                   | –                |
|   | <u>(1,221,033)</u>          | <u>(871,821)</u> |
| Deficiency in shareholders' funds         |                             |                  |
| Net liabilities attributable to the Group | <u>–</u>                    | <u>–</u>         |
| Contingent liabilities                    | <u>–</u>                    | <u>–</u>         |

Balance with Dollar Union Limited at 30th November:

|                                  | <b>THE GROUP</b> |                 |
|----------------------------------|------------------|-----------------|
|                                  | <b>2003</b>      | <b>2002</b>     |
|                                  | <b>HK\$'000</b>  | <b>HK\$'000</b> |
| Amounts due from associates      | 336,125          | 367,575         |
| Less: Impairment loss recognised | (305,258)        | (218,008)       |
|                                  | <u>30,867</u>    | <u>149,567</u>  |

### 24. INVESTMENTS IN SECURITIES

|                              | <b>THE GROUP</b> |                 | <b>THE COMPANY</b> |                 |
|------------------------------|------------------|-----------------|--------------------|-----------------|
|                              | <b>2003</b>      | <b>2002</b>     | <b>2003</b>        | <b>2002</b>     |
|                              | <b>HK\$'000</b>  | <b>HK\$'000</b> | <b>HK\$'000</b>    | <b>HK\$'000</b> |
| Other investments:           |                  |                 |                    |                 |
| Unlisted shares in Hong Kong | <u>7,485</u>     | <u>13,455</u>   | <u>1,500</u>       | <u>–</u>        |

### 25. AMOUNTS DUE FROM INVESTEE COMPANIES

The amounts due from investee companies of the Group are unsecured, interest-free and have no fixed repayment terms. In the opinion of the Directors, the Group will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current assets.

### 26. AMOUNTS DUE FROM MINORITY SHAREHOLDERS

The amounts due from minority shareholders of the Group are unsecured, interest-free and have no fixed repayment terms. In the opinion of the Directors, the Group will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current assets.



## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 27. LOANS RECEIVABLE

|  | <b>THE GROUP</b>     |               |
|--|----------------------|---------------|
|  | <b>2003</b>          | 2002          |
|  | <b>HK\$'000</b>      | HK\$'000      |
| Mortgage loans   |                      |               |
| – interest bearing   | <b>32,514</b>        | 22,659        |
| – interest-free  | <b>888</b>           | 1,215         |
| Other loans  | <b>2,175</b>         | 3,845         |
|  | <u><b>35,577</b></u> | <u>27,719</u> |
| Secured  | <b>33,402</b>        | 23,874        |
| Unsecured  | <b>2,175</b>         | 3,845         |
|  | <u><b>35,577</b></u> | <u>27,719</u> |
| Total loans receivable   | <b>35,577</b>        | 27,719        |
| Less: Amount due within one year<br>shown under current assets | <b>(8,208)</b>       | (9,170)       |
| Amount due after one year                                      | <u><b>27,369</b></u> | <u>18,549</u> |

The mortgage loans are arranged for the buyers of the properties sold by the Group. The interest rates ranged from 2% below prime rate to 2% above prime rate. The loans are secured by the properties and repayable by monthly instalments. The final maturity dates are in the range of several months to 26 years from the balance sheet date.

The interest-free mortgage loans arranged for property buyers, which are approximately 25% of the selling price, are secured by the properties and are to be repaid by 50 monthly instalments commencing from their assignment dates.

The other loans are unsecured advances to third parties. The other loans at 30th November, 2003 are interest-free. HK\$2,061,000 included in other loans at 30th November, 2002 was interest bearing at 2% over prime rate.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 28. DEFERRED TAX

The followings are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior years:

|  | <b>Accelerated<br/>tax<br/>depreciation</b> | <b>Investment<br/>properties</b> | <b>Tax<br/>losses</b> | <b>Total</b>  |
|--|---|----------------------------------|-----------------------|---------------|
|  | HK\$'000                                    | HK\$'000                         | HK\$'000              | HK\$'000      |
| <b>THE GROUP</b>   |   |                                  |                       |               |
| At 1st December, 2001  |   |                                  |                       |               |
| – as originally stated   | –   | –                                | –                     | –             |
| – prior year adjustment  | 893   | 38,126                           | (10,525)              | 28,494        |
|  | <hr/>                                       | <hr/>                            | <hr/>                 | <hr/>         |
| – as restated  | 893   | 38,126                           | (10,525)              | 28,494        |
| Charge (credit) to the income statement                                    | 203   | (13,790)                         | 4,900                 | (8,687)       |
|  | <hr/>                                       | <hr/>                            | <hr/>                 | <hr/>         |
| At 30th November, 2002   | 1,096                                       | 24,336                           | (5,625)               | 19,807        |
| Charge (credit) to the income statement                                    | (642)                                       | 23,269                           | (4,444)               | 18,183        |
| Effect of change in tax rate charged<br>(credited) to the income statement | 27  | –                                | (151)                 | (124)         |
|  | <hr/>                                       | <hr/>                            | <hr/>                 | <hr/>         |
| At 30th November, 2003   | <u>481</u>                                  | <u>47,605</u>                    | <u>(10,220)</u>       | <u>37,866</u> |
| <b>THE COMPANY</b>   |   |                                  |                       |               |
| At 1st December, 2001  |   |                                  |                       |               |
| – as originally stated   | –   | –                                | –                     | –             |
| – prior year adjustment  | –   | –                                | (26)                  | (26)          |
|  | <hr/>                                       | <hr/>                            | <hr/>                 | <hr/>         |
| – as restated  | –   | –                                | (26)                  | (26)          |
| Credit to the income statement   | –   | –                                | (158)                 | (158)         |
|  | <hr/>                                       | <hr/>                            | <hr/>                 | <hr/>         |
| At 30th November, 2002   | –   | –                                | (184)                 | (184)         |
| Credit to the income statement   | –   | –                                | (91)                  | (91)          |
| Effect of change in tax rate<br>credited to the income statement           | –   | –                                | (17)                  | (17)          |
|  | <hr/>                                       | <hr/>                            | <hr/>                 | <hr/>         |
| At 30th November, 2003   | <u>–</u>                                    | <u>–</u>                         | <u>(292)</u>          | <u>(292)</u>  |

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with SSAP 12 (Revised). The analysis of the deferred tax balances at the balance sheet date is as follows:

|                          | <b>THE GROUP</b>     |               | <b>THE COMPANY</b>  |              |
|--------------------------|----------------------|---------------|---------------------|--------------|
|                          | <b>2003</b>          | <b>2002</b>   | <b>2003</b>         | <b>2002</b>  |
|                          | HK\$'000             | HK\$'000      | HK\$'000            | HK\$'000     |
| Deferred tax liabilities | <b>42,156</b>        | 21,443        | –                   | –            |
| Deferred tax assets      | <b>(4,290)</b>       | (1,636)       | <b>(292)</b>        | (184)        |
|                          | <hr/>                | <hr/>         | <hr/>               | <hr/>        |
|                          | <u><b>37,866</b></u> | <u>19,807</u> | <u><b>(292)</b></u> | <u>(184)</u> |

At the balance sheet date, the Group has unused tax losses of HK\$796,915,000 (2002: HK\$769,846,000) available for offset against future profits. A deferred tax asset has been recognised in respect of HK\$42,779,000 (2002: HK\$24,851,000) of such losses. No deferred tax asset has been recognised in respect of the remaining HK\$754,136,000 (2002: HK\$744,995,000) due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 29. PROPERTIES UNDER DEVELOPMENT FOR SALE

|   | <b>THE GROUP</b> |             |
|---|------------------|-------------|
|   | <b>2003</b>      | 2002        |
|   | <b>HK\$'000</b>  | HK\$'000    |
| <b>Cost</b>   |                  |             |
| At the beginning of the year                            | <b>1,092,815</b> | –           |
| Transfer from properties held for development (note 20) | –                | 1,092,815   |
| Additions   | <b>211,111</b>   | –           |
| Transfer to properties held for sale (note 30)          | <b>(162,774)</b> | –           |
|   | <hr/>            | <hr/>       |
| At 30th November  | <b>1,141,152</b> | 1,092,815   |
|   | <hr/>            | <hr/>       |
| <b>Allowance</b>  |                  |             |
| At the beginning of the year                            | <b>(193,972)</b> | –           |
| Transfer from properties held for development (note 20) | –                | (193,972)   |
| Transfer to properties held for sale (note 30)          | <b>55,682</b>    | –           |
|   | <hr/>            | <hr/>       |
| At 30th November  | <b>(138,290)</b> | (193,972)   |
|   | <hr/>            | <hr/>       |
| <b>Carrying amount</b>                                  |                  |             |
| At 30th November  | <b>1,002,862</b> | 898,843     |
|   | <hr/> <hr/>      | <hr/> <hr/> |

The properties under development for sale were located in Hong Kong with lease on land held under medium-term.

At the balance sheet date, properties of HK\$867,598,000 included in the properties under development for sale are carried at net realisable value (2002: HK\$898,843,000).

Include in the cost of properties under development for sale at 30th November, 2003 is interest capitalised of approximately HK\$96,127,000 (2002: HK\$103,537,000).

### 30. PROPERTIES HELD FOR SALE

Properties of HK\$45,300,000 included in the properties held for sale of the Group are carried at net realisable value (2002: HK\$60,859,000).

### 31. INVENTORIES

|                | <b>THE GROUP</b> |             |
|----------------|------------------|-------------|
|                | <b>2003</b>      | 2002        |
|                | <b>HK\$'000</b>  | HK\$'000    |
| Raw materials  | <b>411</b>       | 483         |
| Finished goods | <b>845</b>       | 735         |
|                | <hr/>            | <hr/>       |
|                | <b>1,256</b>     | 1,218       |
|                | <hr/> <hr/>      | <hr/> <hr/> |

At 30th November, 2003, all inventories are carried at cost. At 30th November, 2002, HK\$735,000 included in inventories was carried at net realisable value.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 32. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

The Group operates a controlled credit policy and allows an average credit period of 30 to 90 days to its trade customers who satisfy the credit evaluation. Included in accounts receivable, deposits and prepayments are trade receivable of HK\$1,054,000 (2002: HK\$1,137,000).

The aged analysis of the trade receivable is as follows:

|              | <b>THE GROUP</b> |          |
|--------------|------------------|----------|
|              | <b>2003</b>      | 2002     |
|              | <b>HK\$'000</b>  | HK\$'000 |
| 0-30 days    | 498              | 905      |
| 31-90 days   | 226              | 162      |
| Over 90 days | 330              | 70       |
|              | <b>1,054</b>     | 1,137    |
|              | <b>1,054</b>     | 1,137    |

### 33. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUALS

Included in accounts payable, deposits received and accruals are trade payable of HK\$117,000 (2002: HK\$509,000).

The aged analysis of the trade payable is as follows:

|           | <b>THE GROUP</b> |          |
|-----------|------------------|----------|
|           | <b>2003</b>      | 2002     |
|           | <b>HK\$'000</b>  | HK\$'000 |
| 0-90 days | 117              | 509      |
|           | <b>117</b>       | 509      |

### 34. BORROWINGS

|                 | <b>THE GROUP</b> |          |
|-----------------|------------------|----------|
|                 | <b>2003</b>      | 2002     |
|                 | <b>HK\$'000</b>  | HK\$'000 |
| Bank loans      | 255,865          | 243,266  |
| Other loans     | 1,092            | 1,092    |
| Bank overdrafts | –                | 53,163   |
|                 | <b>256,957</b>   | 297,521  |
|                 | <b>256,957</b>   | 297,521  |
| Secured         | 255,865          | 296,429  |
| Unsecured       | 1,092            | 1,092    |
|                 | <b>256,957</b>   | 297,521  |
|                 | <b>256,957</b>   | 297,521  |

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|   | <b>THE GROUP</b>      |                       |
|---|-----------------------|-----------------------|
|   | <b>2003</b>           | <b>2002</b>           |
|   | <b>HK\$'000</b>       | <b>HK\$'000</b>       |
| The maturity of the borrowings is as follows:                       |                       |                       |
| On demand or within one year  | 17,492                | 97,192                |
| More than one year but not exceeding two years                      | 3,400                 | 5,704                 |
| More than two years but not exceeding five years                    | 236,065               | 194,625               |
|   | <u>256,957</u>        | <u>297,521</u>        |
| Less: Amount due within one year<br>shown under current liabilities | <u>(17,492)</u>       | <u>(97,192)</u>       |
| Amount due after one year   | <u><u>239,465</u></u> | <u><u>200,329</u></u> |

Included in the bank borrowings, an amount of HK\$227,565,000 (2002: HK\$217,594,000) was guaranteed by shareholders of the ultimate holding company.

### 35. SHARE CAPITAL

|                                      | <b>Number of shares</b> |                      | <b>Share capital</b> |                  |
|--------------------------------------|-------------------------|----------------------|----------------------|------------------|
|                                      | <b>2003</b>             | <b>2002</b>          | <b>2003</b>          | <b>2002</b>      |
|                                      |                         |                      | <b>HK\$'000</b>      | <b>HK\$'000</b>  |
| Ordinary shares of HK\$0.40 each     |                         |                      |                      |                  |
| <b>Authorised</b>                    |                         |                      |                      |                  |
| At the beginning and end of the year | <u>3,000,000,000</u>    | <u>3,000,000,000</u> | <u>1,200,000</u>     | <u>1,200,000</u> |
| <b>Issued and fully paid</b>         |                         |                      |                      |                  |
| At the beginning and end of the year | <u>959,899,416</u>      | <u>959,899,416</u>   | <u>383,960</u>       | <u>383,960</u>   |

**APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP**

**36. RESERVES**

|   | Share<br>premium<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Exchange<br>reserve<br><i>HK\$'000</i> | Accumulated<br>profits (losses)<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|-------------------------------------|---|--|--|--------------------------|
| <b>THE GROUP</b>  |                                     |   |  |  |                          |
| At 1st December, 2001   |                                     |   |  |  |                          |
| – as originally stated  | 681,650                             | 437,153                                   | 2,631                                  | 137,931  | 1,259,365                |
| – prior year adjustment   | –                                   | –   | –                                      | (28,494)   | (28,494)                 |
|   | <u>681,650</u>                      | <u>437,153</u>                            | <u>2,631</u>                           | <u>109,437</u>                                     | <u>1,230,871</u>         |
| – as restated   | 681,650                             | 437,153                                   | 2,631                                  | 109,437  | 1,230,871                |
| Exchange adjustment, net of<br>minority interests                     | –                                   | –   | (93)                                   | –  | (93)                     |
| Share of associates' exchange<br>reserves movement<br>during the year | –                                   | –   | (868)                                  | –  | (868)                    |
| Loss for the year (restated)  | –                                   | –   | –                                      | (256,307)  | (256,307)                |
|   | <u>–</u>                            | <u>–</u>                                  | <u>–</u>                               | <u>(256,307)</u>                                   | <u>(256,307)</u>         |
| At 30th November, 2002  |                                     |   |  |  |                          |
| – as originally stated  | 681,650                             | 437,153                                   | 1,670                                  | (127,063)  | 993,410                  |
| – prior year adjustment   | –                                   | –   | –                                      | (19,807)   | (19,807)                 |
|   | <u>681,650</u>                      | <u>437,153</u>                            | <u>1,670</u>                           | <u>(146,870)</u>                                   | <u>973,603</u>           |
| – as restated   | 681,650                             | 437,153                                   | 1,670                                  | (146,870)  | 973,603                  |
| Exchange adjustment, net of<br>minority interests                     | –                                   | –   | 242                                    | –  | 242                      |
| Released to the income<br>statement on disposal<br>of an associate    | –                                   | –   | 159                                    | –  | 159                      |
| Share of associates' exchange<br>reserves movement<br>during the year | –                                   | –   | (576)                                  | –  | (576)                    |
| Loss for the year   | –                                   | –   | –                                      | (73,612)   | (73,612)                 |
|   | <u>–</u>                            | <u>–</u>                                  | <u>–</u>                               | <u>(73,612)</u>                                    | <u>(73,612)</u>          |
| <b>At 30th November, 2003</b>   | <b><u>681,650</u></b>               | <b><u>437,153</u></b>                     | <b><u>1,495</u></b>                    | <b><u>(220,482)</u></b>                            | <b><u>899,816</u></b>    |
| Attributable to:  |                                     |   |  |  |                          |
| The Company and subsidiaries  | 681,650                             | 437,153                                   | 2,504                                  | (221,283)  | 900,024                  |
| Associates  | –                                   | –   | (1,009)                                | 801  | (208)                    |
|   | <u>681,650</u>                      | <u>437,153</u>                            | <u>1,495</u>                           | <u>(220,482)</u>                                   | <u>899,816</u>           |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

|                               | Share<br>premium<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Exchange<br>reserve<br><i>HK\$'000</i> | Accumulated<br>losses<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|-------------------------------|-------------------------------------|---|--|--|--------------------------|
| <b>THE COMPANY</b>            |                                     |   |  |  |                          |
| At 1st December, 2001         |                                     |   |  |  |                          |
| – as originally stated        | 681,650                             | 792,680                                   | –                                      | (204,020)                                | 1,270,310                |
| – prior year adjustment       | –                                   | –   | –                                      | 26                                       | 26                       |
|                               |                                     |   |  |  |                          |
| – as restated                 | 681,650                             | 792,680                                   | –                                      | (203,994)                                | 1,270,336                |
| Loss for the year (restated)  | –                                   | –   | –                                      | (276,742)                                | (276,742)                |
|                               |                                     |   |  |  |                          |
| At 30th November, 2002        |                                     |   |  |  |                          |
| – as originally stated        | 681,650                             | 792,680                                   | –                                      | (480,920)                                | 993,410                  |
| – prior year adjustment       | –                                   | –   | –                                      | 184                                      | 184                      |
|                               |                                     |   |  |  |                          |
| – as restated                 | 681,650                             | 792,680                                   | –                                      | (480,736)                                | 993,594                  |
| Loss for the year             | –                                   | –   | –                                      | (185,934)                                | (185,934)                |
|                               |                                     |   |  |  |                          |
| <b>At 30th November, 2003</b> | <b>681,650</b>                      | <b>792,680</b>                            | <b>–</b>                               | <b>(666,670)</b>                         | <b>807,660</b>           |

The contributed surplus of the Group represents the difference between the underlying net assets of subsidiaries acquired by a subsidiary of the Company and the nominal value of the share capital issued for the acquisition by the subsidiary pursuant to the Group reorganisation before 1990.

The contributed surplus of the Company represents the difference between the underlying net assets of subsidiaries acquired by the Company and the nominal value of the share capital issued for the acquisition by the Company pursuant to the Group reorganisation in 1990.

Under the Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the Directors, the reserves of the Company available for distribution to the shareholders, as calculated under the provision of the Companies Act 1981 of Bermuda, as at 30th November, 2003 is HK\$126,010,000 (2002: (restated) HK\$311,944,000) which represented the sum of contributed surplus and accumulated losses.

### 37. SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 5th June, 1995 for the primary purpose of providing incentives to directors and eligible employees and will expire on 4th June, 2005. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time. The number of shares in respect of which options may be granted to such employee is not permitted to exceed 25% of the number of shares issued and issuable under the Scheme.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

Options granted must be taken up not later than 28 days after the date of grant. Options may be exercised at any time during a period to be notified by the Board of Directors to each grantee and in any event shall not exceed ten years commencing on the date the option is accepted and expiring on the last day of the ten year period. A price of HK\$1 is payable by the grantee in respect of each option granted and accepted under the Scheme. The exercise price is determined by the Directors of the Company, and will not be less than 90% of the average of the closing prices of the shares for the five business days immediately preceding the date of grant of the option or the nominal value of the shares, whichever is the higher.

No options were granted or exercised during the year and there were no outstanding options at the beginning or the end of the year.

### 38. LOANS FROM ULTIMATE HOLDING COMPANY

The loans from ultimate holding company of the Company are unsecured, with interest charged at 1.85% per annum over HIBOR with effect from 10th August, 2003 (2002: 0.5% over prime rate). The ultimate holding company will not demand repayment within twelve months from the balance sheet date and the loans are therefore shown as non-current liabilities.

### 39. AMOUNTS DUE TO MINORITY SHAREHOLDERS

The amounts due to minority shareholders of the Group are unsecured, interest-free and have no fixed repayment terms. The minority shareholders will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current liabilities.

### 40. AMOUNTS DUE TO ASSOCIATES

The amounts due to associates of the Group are unsecured, interest-free and have no fixed repayment terms. The associates will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current liabilities.

### 41. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries of the Company are unsecured, interest-free and has no fixed repayment terms. In the opinion of the Directors, the subsidiaries will not demand repayment within twelve months from the balance sheet date and the amounts are therefore shown as non-current liabilities.

### 42. ACQUISITION OF SUBSIDIARIES

Summary of the effects of acquisition of subsidiaries during the year is as follows:

|  | 2003<br>HK\$'000 | 2002<br>HK\$'000 |
|--|------------------|------------------|
| <b>Net assets acquired</b>                       |                  |                  |
| Properties under development for sale            | 124,000          | –                |
| Pledged deposits                                 | 231              | –                |
| Bank balances and cash                           | 23               | –                |
| Accounts payable, deposits received and accruals | (1,604)          | –                |
|  | 122,650          | –                |
| Satisfied by:                                    |                  |                  |
| Cash consideration                               | 122,650          | –                |
| Less: Bank balances and cash acquired            | (23)             | –                |
| Net outflow of cash and cash equivalents         | 122,627          | –                |

The subsidiaries acquired during the year did not contribute significantly to the Group's cash flow.



## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 43. DISPOSAL OF SUBSIDIARIES

Summary of the effects of disposal of subsidiaries during the year is as follows:

|  | <b>2003</b>     | <b>2002</b>     |
|--|-----------------|-----------------|
|  | <b>HK\$'000</b> | <b>HK\$'000</b> |
| <b>Net assets disposed of</b>                    |                 |                 |
| Properties held for sale                         | 2,084           | –               |
| Amount due from minority shareholders            | 528             | –               |
| Accounts receivable, deposits and prepayments    | 46              | –               |
| Tax prepaid                                      | 115             | –               |
| Bank balances and cash                           | 260             | –               |
| Accounts payable, deposits received and accruals | (134)           | –               |
| Minority interests                               | (1,864)         | –               |
|  | <b>1,035</b>    | –               |
| Satisfied by:                                    |                 |                 |
| Cash consideration                               | 1,035           | –               |
| Less: Bank balances and cash disposed of         | (260)           | –               |
|  | <b>775</b>      | –               |
| Net inflow of cash and cash equivalents          | <b>775</b>      | –               |

The subsidiaries disposed during the year did not contribute significantly to the Group's cash flow.

### 44. MAJOR NON-CASH TRANSACTIONS

During the year ended 30th November, 2003, revenue from sales of properties included interest-bearing mortgage loans of HK\$12,673,000 advanced to buyers.

During the year ended 30th November, 2002, the Group had no major non-cash transactions.

### 45. PLEDGE OF ASSETS

At the balance sheet date, the carrying amounts of the assets pledged by the Group to secure general banking facilities granted to the Group are analysed as follows:

|                                       | <b>2003</b>     | <b>2002</b>      |
|---------------------------------------|-----------------|------------------|
|                                       | <b>HK\$'000</b> | <b>HK\$'000</b>  |
| Investment properties                 | 117,900         | 119,800          |
| Properties under development for sale | 867,598         | 898,843          |
| Pledge deposits                       | 335             | –                |
|                                       | <b>985,833</b>  | <b>1,018,643</b> |
|                                       | <b>985,833</b>  | <b>1,018,643</b> |

The Company did not pledge any of its assets at 30th November, 2003 and 30th November, 2002.

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### 46. COMMITMENTS

At the balance sheet date, there were commitments contracted but not provided for in the financial statements in respect of:

|              | <b>THE GROUP</b> |                 |
|--------------|------------------|-----------------|
|              | <b>2003</b>      | <b>2002</b>     |
|              | <b>HK\$'000</b>  | <b>HK\$'000</b> |
| Construction | <u>703,537</u>   | <u>85,613</u>   |

The Company did not have any other material commitments at the balance sheet date.

### 47. CONTINGENT LIABILITIES

At the balance sheet date, there were contingent liabilities in respect of:

|  | <b>THE GROUP</b>      |                 | <b>THE COMPANY</b>    |                 |
|--|-----------------------|-----------------|-----------------------|-----------------|
|  | <b>2003</b>           | <b>2002</b>     | <b>2003</b>           | <b>2002</b>     |
|  | <b>HK\$'000</b>       | <b>HK\$'000</b> | <b>HK\$'000</b>       | <b>HK\$'000</b> |
| Guarantees given to banks and financial institutions for general facilities made available to: |                       |                 |                       |                 |
| Subsidiaries   | –                     | –               | <b>35,300</b>         | 84,672          |
| Associates and an investee company   | <u>344,595</u>        | <u>62,305</u>   | <u>344,595</u>        | <u>62,305</u>   |
|  | <u><b>344,595</b></u> | <u>62,305</u>   | <u><b>379,895</b></u> | <u>146,977</u>  |

### 48. OPERATING LEASE ARRANGEMENTS

*The Group as lessee*

|  | <b>THE GROUP</b> |                 |
|--|------------------|-----------------|
|  | <b>2003</b>      | <b>2002</b>     |
|  | <b>HK\$'000</b>  | <b>HK\$'000</b> |
| Lease payments paid under operating leases in respect of rented premises during the year | <u>435</u>       | <u>1,065</u>    |

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

|                                       | <b>THE GROUP</b>  |                 |
|---------------------------------------|-------------------|-----------------|
|                                       | <b>2003</b>       | <b>2002</b>     |
|                                       | <b>HK\$'000</b>   | <b>HK\$'000</b> |
| Within one year                       | <b>80</b>         | 192             |
| In the second to fifth year inclusive | <u>29</u>         | <u>48</u>       |
|                                       | <u><b>109</b></u> | <u>240</u>      |

Operating lease payments represent rental payable by the Group for certain office premises. The leases for these office premises are negotiated for a fixed term of two years.

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### *The Group as lessor*

The investment properties of the Group are expected to generate rental at reasonable yields on an ongoing basis. The leases are negotiated for terms of several months to eight years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

|                                       | <b>THE GROUP</b> |          |
|---------------------------------------|------------------|----------|
|                                       | <b>2003</b>      | 2002     |
|                                       | <b>HK\$'000</b>  | HK\$'000 |
| Within one year                       | <b>28,649</b>    | 24,967   |
| In the second to fifth year inclusive | <b>29,640</b>    | 23,593   |
| After five years                      | –                | 18,156   |
|                                       | <b>58,289</b>    | 66,716   |

### **49. LITIGATION**

A legal action against the Group was taken by a Chinese joint venture partner. On 17th May, 1996, Huibei Provincial High Court (the ‘‘Huibei Court’’) imposed a judgment against the Group in favour of the Chinese joint venture partner in relation to the former joint development of Shuohu Court in Wuhan (the ‘‘Development’’). The judgment, which the Group has appealed against, in effect nullified the joint development agreement for the Development. On 28th May, 1998, the Supreme People’s Court of the PRC (the ‘‘Supreme Court’’) dismissed the appeal of the Group but, inter alia, reduced the amount of the judgment sum of the Huibei Court issued on 17th May, 1996. Based on the judgment, the judgment sum of HK\$13.4 million which includes unpaid contract sums, damages, legal costs and interest charges, would have to be paid. However, the Group disputes the quantification and has lodged an appeal for re-trial. The appeal was formally accepted on 14th March, 2002 and the hearing was twice conducted on 23rd May, 2002 and 14th June, 2002. At present, the Group is waiting for the judgement to be delivered from the Supreme Court on re-trial. As a result of the foregoing, a total provision of HK\$64.8 million was made in 1998 of which HK\$51.4 million was made against the investment cost paid. The remaining HK\$13.4 million were provided against damages, legal costs and interest charges up to 1998. The Directors believe that no further provision is required at this stage.

At the balance sheet date, the Group had the following provisions in relation to litigation:

|            | <b>THE GROUP</b> |          |
|------------|------------------|----------|
|            | <b>2003</b>      | 2002     |
|            | <b>HK\$'000</b>  | HK\$'000 |
| Provisions | <b>13,354</b>    | 13,354   |

### **50. RELATED PARTY TRANSACTIONS**

During the year, the Group entered into the following transactions with related parties:

|   | <b>2003</b>     | 2002     |
|---|-----------------|----------|
|   | <b>HK\$'000</b> | HK\$'000 |
| Interest paid/payable to ultimate holding company (note 38) | <b>5,522</b>    | 395      |
| Interest receivable from an associate (note 23)             | <b>56</b>       | 61       |
| Guarantee fee payable to related companies                  | –               | 968      |
|   | <b>5,578</b>    | 1,424    |

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Chinese Estates, Ltd (“CEL”), a wholly-owned subsidiary of Chinese Estates performed certain administrative services for the Group, for which a management fee of HK\$48,000 (2002: HK\$48,000) was charged for the year, being an appropriate allocation of costs incurred by relevant administrative departments.

Shanghai Golden Sea Building Limited (“SGS”), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Evergo Holdings (China) Company Limited (“Evergo BVI”), a wholly-owned subsidiary of Chinese Estates, pursuant to which SGS agreed to lease to Evergo BVI B1 Unit 03 of Peregrine Plaza, Shanghai, the PRC for a period of two years commencing from 1st July, 2001 to 30th June, 2003 at a monthly rental of US\$702. The tenancy agreement was renewed for a further two years commencing from 1st July, 2003 to 30th June, 2005 at a monthly rental of US\$502.

The House of Kwong Sang Hong Limited (“HKSH”), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Hillsborough Holdings Limited (“Hillsborough”), a wholly-owned subsidiary of Chinese Estates, pursuant to which Hillsborough agreed to lease to HKSH Shop No. 2 on the Ground Floor of Causeway Place, Hong Kong Mansion, Causeway Bay, Hong Kong for a period of two years commencing from 1st April, 2001 to 31st March, 2003 at 50% of gross revenue of the shop per month. The lease was terminated on 26th September, 2002 and a new licence agreement was entered into for leasing Shop No. 3 on the Mezzanine Floor of Causeway Place commencing from 27th September, 2002, at 35% of gross revenue of the shop per month. The licence is of monthly basis and will be renewed automatically from month to month, until and unless such licence to be terminated by either party with one month’s prior notice at any time.

HKSH also entered into a licence agreement with Great King Limited (“Great King”), a 57.56% owned subsidiary of Chinese Estates, pursuant to which Great King agreed to lease to HKSH Shop No. 147 on the First Floor of Yuen Long New Place, Golden Hall Building, Yuen Long, New Territories, Hong Kong commencing from 23rd July, 2003 at 10% gross revenue of the shop per month. The licence is of monthly basis and will be renewed automatically from month to month, until and unless such licence to be terminated by either party with seven days’ prior notice at any time.

Polyco Development Limited (“Polyco”), a 80% owned subsidiary of the Company, entered into a tenancy agreement with CEL, pursuant to which Polyco agreed to lease to CEL, Workshops Nos. 1-8 on the 18th to 20th Floors of Kwong Kin Trade Centre, Tuen Mun, New Territories, Hong Kong for a period of two years commencing from 1st June, 2002 to 31st May, 2004 at a monthly rental and management fee of HK\$27,684 and HK\$32,094 respectively.

The Kwong Sang Hong Limited (“KSH”), a wholly-owned subsidiary of the Company, entered into a sub-lease agreement with CEL, pursuant to which CEL agreed to sub-lease to KSH, Room 102 on the 1st Floor of Mass Mutual Tower, Wanchai, Hong Kong for a period of two years commencing from 1st March, 2002 to 29th February, 2004 at a monthly rental of HK\$16,000.

Details of balances with related parties as at the balance sheet date are set out in notes 23, 25, 26, 34, 38, 39 and 40.

### 51. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 30th November, 2003 are as follows:

| Name of subsidiary        | Place of incorporation or registration/ operation | Issued share capital/ registered capital | Percentage of equity attributable at the Group | Principal activity |
|---------------------------|---|--|--|--------------------|
| <i>Direct subsidiary</i>  |   |  |  |                    |
| Proud Success Limited     | British Virgin Islands/<br>Hong Kong              | 1 share of<br>US\$1                      | 100%   | Investment holding |
| Sincere Universal Limited | British Virgin Islands/<br>Hong Kong              | 1 share of<br>US\$1                      | 100%   | Investment holding |

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| Name of subsidiary                                 | Place of incorporation or registration/operation | Issued share capital/registered capital            | Percentage of equity attributable at the Group | Principal activity                       |
|--|--|--|--|--|
| Sound Jade Ltd.                                    | British Virgin Islands/<br>Hong Kong             | 1 share of<br>US\$1                                | 100%   | Investment holding                       |
| The House of Kwong Sang Hong International Limited | British Virgin Islands/<br>Hong Kong             | 1 share of<br>US\$1                                | 100%   | Investment holding                       |
| The Kwong Sang Hong Limited                        | Hong Kong  | 198,060,540<br>ordinary shares<br>of HK\$0.01 each | 100%   | Investment holding                       |
| <i>Indirect subsidiary</i>                         |  |  |  |  |
| Attractive Vision Sdn. Bhd. *                      | Malaysia   | 2 ordinary shares<br>of MYR1 each                  | 100%   | Investment holding                       |
| Billion Universe Limited                           | Hong Kong  | 2 ordinary shares<br>of HK\$1 each                 | 100%   | Property<br>development                  |
| Healthy Sun Limited                                | Hong Kong  | 2 ordinary shares<br>of HK\$1 each                 | 100%   | Property<br>development                  |
| Hit City Limited                                   | Hong Kong  | 10,000 ordinary<br>shares of<br>HK\$1 each         | 100%   | Property investment                      |
| Huge Million Limited                               | Hong Kong/PRC                                    | 2 ordinary shares<br>of HK\$1 each                 | 100%   | Property investment                      |
| Rich Century Limited                               | Hong Kong  | 2 ordinary shares<br>of HK\$1 each                 | 100%   | Property trading                         |
| Shanghai Golden Sea Building Limited **            | PRC  | Registered capital<br>US\$10,500,000               | 100%   | Property investment                      |
| Super Mate Limited                                 | Hong Kong  | 20 ordinary<br>shares of<br>HK\$250,000 each       | 100%   | Property trading                         |
| The House of Kwong Sang Hong Limited               | Hong Kong  | 500,000 ordinary<br>shares of<br>HK\$1 each        | 100%   | Cosmetics<br>distribution<br>and trading |
| The Kwong Sang Hong Estate Agents Limited          | Hong Kong  | 2 ordinary shares<br>of HK\$100 each               | 100%   | Estate agency<br>services                |
| The Kwong Sang Hong Finance Company Limited        | Hong Kong  | 100,000 ordinary<br>shares of<br>HK\$100 each      | 100%   | Loan financing                           |
| Twin Sparkle Investment Limited                    | Hong Kong  | 2 ordinary shares<br>of HK\$1 each                 | 100%   | Property investment                      |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

| Name of subsidiary               | Place of incorporation or registration/operation | Issued share capital/registered capital | Percentage of equity attributable at the Group | Principal activity                      |
|----------------------------------|--|---|--|---|
| Well Alliance Company Limited    | Hong Kong  | 10,000 ordinary shares of HK\$1 each    | 100%   | Loan financing                          |
| Gold Concord Development Limited | Hong Kong  | 5 ordinary shares of HK\$1 each         | 80%  | Property trading                        |
| Hero Star (HK) Limited           | Hong Kong  | 10,000 ordinary shares of HK\$1 each    | 50%  | Property development                    |
| Mark Base Limited                | Hong Kong/PRC                                    | 2 ordinary shares of HK\$1 each         | 75%  | Property development                    |
| Poly-Style Limited               | Hong Kong  | 8 ordinary shares of HK\$1 each         | 87.5%  | Property development                    |
| Polyco Development Limited       | Hong Kong  | 5 ordinary shares of HK\$1 each         | 80%  | Property trading and mortgage financing |

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital outstanding at the end of the year, or at any time during the year.

\* *companies not audited by Messrs. Deloitte Touche Tohmatsu*

\*\* *wholly foreign-owned enterprise*

### 52. PRINCIPAL ASSOCIATES

Particulars of the Group's principal associates, which were indirectly held by the Company, at 30th November, 2003 are as follows:

| Name of associate                          | Place of incorporation or registration/operation | Percentage of equity attributable at the Group | Principal activity   |
|--|--|--|----------------------|
| Dollar Union Limited                       | Hong Kong  | 25%  | Property development |
| East Australia Trading Company Limited *   | Hong Kong/Vietnam                                | 20%  | Property investment  |
| KSH Guardian Property Management Limited * | Hong Kong  | 50%  | Property management  |

The above table lists the associates of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

\* *companies not audited by Messrs. Deloitte Touche Tohmatsu*

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 3. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 31ST MAY, 2004

The following is the reproduction of the unaudited condensed consolidated financial statements of KSH for the six months ended 31st May, 2004.

#### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 31st May, 2004*

|  | <i>Notes</i> | Six months ended<br>31st May,          |  |
|--|--------------|--|--|
|  |              | 2004<br><i>HK\$'000</i><br>(Unaudited) | 2003<br><i>HK\$'000</i><br>(Unaudited) |
| Turnover                                   | 2            | 20,367                                 | 122,294                                |
| Cost of sales                              |              | (7,196)                                | (124,130)                              |
|  |              | 13,171                                 | (1,836)                                |
| Gross profit (loss)                        |              |  |  |
| Other operating income                     | 4            | 6,252                                  | 3,079                                  |
| Selling and marketing expenses             |              | (818)                                  | (567)                                  |
| Administrative expenses                    |              | (3,612)                                | (4,947)                                |
| Other operating expenses                   | 6            | (6,554)                                | (5,593)                                |
|  |              | 8,439                                  | (9,864)                                |
| Profit (loss) from operations              |              |  |  |
| Finance costs                              | 7            | (2,384)                                | (4,395)                                |
| Investment income (loss)                   | 8            | 2,771                                  | (1)                                    |
| Other gain (loss)                          | 9            | 158                                    | (87,788)                               |
| Share of results of associates             |              | (35)                                   | 1,134                                  |
|  |              | 8,949                                  | (100,914)                              |
| Profit (loss) before taxation              |              |  |  |
| Taxation                                   | 10           | (2,738)                                | 1,340                                  |
|  |              | 6,211                                  | (99,574)                               |
| Profit (loss) after taxation               |              |  |  |
| Minority interests                         |              | 219                                    | 3,900                                  |
|  |              | 6,430                                  | (95,674)                               |
| Profit (loss) attributable to shareholders |              |  |  |
| Earnings (loss) per share                  | 11           |  |  |
| Basic                                      |              | <u>0.67 cents</u>                      | <u>(9.97) cents</u>                    |
| Interim dividend per share                 |              | <u>—</u>                               | <u>—</u>                               |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### CONDENSED CONSOLIDATED BALANCE SHEET

At 31st May, 2004

|   | <i>Notes</i> | <b>31st May,<br/>2004<br/>HK\$'000<br/>(Unaudited)</b> | 30th November,<br>2003<br>HK\$ '000<br>(Audited) |
|---|--------------|--|--|
| <b>Non-Current Assets</b>                         |              |  |  |
| Investment properties                             | 12           | 499,900  | 499,900  |
| Other fixed assets                                |              | 1,101  | 1,237  |
| Properties held for development                   |              | 149,153  | 149,148  |
| Interests in associates                           |              | 42,495   | 43,102   |
| Investments in securities                         |              | 7,080  | 7,485  |
| Amounts due from investee companies               |              | 113,115  | 110,925  |
| Amounts due from minority shareholders            |              | 170  | 170  |
| Loans receivable - due after one year             |              | 23,339   | 27,369   |
| Deferred tax assets                               |              | 4,770  | 4,290  |
|   |              | <b>841,123</b>   | 843,626  |
| <b>Current Assets</b>                             |              |  |  |
| Properties under development for sale             |              | 1,084,758  | 1,002,862  |
| Properties held for sale                          |              | 47,744   | 49,728   |
| Inventories                                       |              | 1,752  | 1,256  |
| Loans receivable - due within one year            |              | 8,461  | 8,208  |
| Accounts receivable, deposits and prepayments     | 13           | 5,769  | 4,725  |
| Cash in stakeholders' accounts held by solicitors |              | 416  | 438  |
| Pledged deposits                                  |              | 437  | 335  |
| Bank balances and cash                            |              | 14,215   | 22,005   |
|   |              | <b>1,163,552</b>                                       | 1,089,557  |
| <b>Current Liabilities</b>                        |              |  |  |
| Accounts payable, deposits received and accruals  | 14           | 69,328   | 70,785   |
| Tax liabilities                                   |              | 2,798  | 2,270  |
| Borrowings - due within one year                  | 15           | 16,778   | 17,492   |
| Provisions  | 19           | 16,820   | 13,354   |
|   |              | <b>105,724</b>   | 103,901  |
| <b>Net Current Assets</b>                         |              | <b>1,057,828</b>                                       | 985,656  |
|   |              | <b>1,898,951</b>                                       | 1,829,282  |
| <b>Capital and Reserves</b>                       |              |  |  |
| Share capital                                     | 16           | 383,960  | 383,960  |
| Reserves  |              | 905,921  | 899,816  |
|   |              | <b>1,289,881</b>                                       | 1,283,776  |
| <b>Minority Interests</b>                         |              | <b>(35,184)</b>  | (34,965)   |
| <b>Non-Current Liabilities</b>                    |              |  |  |
| Loans from ultimate holding company               |              | 152,650  | 152,650  |
| Amounts due to minority shareholders              |              | 146,091  | 146,200  |
| Borrowings - due after one year                   | 15           | 300,555  | 239,465  |
| Deferred tax liabilities                          |              | 44,958   | 42,156   |
|   |              | <b>644,254</b>   | 580,471  |
|   |              | <b>1,898,951</b>                                       | 1,829,282  |



## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 31st May, 2004*

|   | Share<br>capital<br><i>HK\$'000</i> | Share<br>premium<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Exchange<br>reserve<br><i>HK\$'000</i> | Accumulated<br>losses<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|---|--|--|--------------------------|
| At 1st December, 2002   | 383,960                             | 681,650                             | 437,153                                   | 1,670                                  | (146,870)                                | 1,357,563                |
| Exchange adjustment, net of<br>minority interests                           | –                                   | –                                   | –   | (14)                                   | –  | (14)                     |
| Share of associates' reserve<br>movement during the period                  | –                                   | –                                   | –   | (73)                                   | –  | (73)                     |
| Net loss not recognised<br>in the income statement                          | –                                   | –                                   | –   | (87)                                   | –  | (87)                     |
| Loss for the period   | –                                   | –                                   | –   | –                                      | (95,674)                                 | (95,674)                 |
| At 31st May, 2003   | 383,960                             | 681,650                             | 437,153                                   | 1,583                                  | (242,544)                                | 1,261,802                |
| Exchange released to the<br>income statement on<br>disposal of an associate | –                                   | –                                   | –   | 159                                    | –  | 159                      |
| Exchange adjustment, net of<br>minority interests                           | –                                   | –                                   | –   | 256                                    | –  | 256                      |
| Share of associates' reserve<br>movement during the period                  | –                                   | –                                   | –   | (503)                                  | –  | (503)                    |
| Net loss not recognised<br>in the income statement                          | –                                   | –                                   | –   | (247)                                  | –  | (247)                    |
| Profit for the period   | –                                   | –                                   | –   | –                                      | 22,062                                   | 22,062                   |
| At 30th November, 2003  | 383,960                             | 681,650                             | 437,153                                   | 1,495                                  | (220,482)                                | 1,283,776                |
| Exchange adjustment   | –                                   | –                                   | –   | (327)                                  | –  | (327)                    |
| Share of associates' reserve<br>movement during the period                  | –                                   | –                                   | –   | 2                                      | –  | 2                        |
| Net loss not recognised<br>in the income statement                          | –                                   | –                                   | –   | (325)                                  | –  | (325)                    |
| Profit for the period   | –                                   | –                                   | –   | –                                      | 6,430                                    | 6,430                    |
| At 31st May, 2004   | 383,960                             | 681,650                             | 437,153                                   | 1,170                                  | (214,052)                                | 1,289,881                |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 31st May, 2004*

|  | Six months ended<br>31st May, |                 |
|--|-------------------------------|-----------------|
|  | 2004                          | 2003            |
|  | <i>HK\$'000</i>               | <i>HK\$'000</i> |
|  | (Unaudited)                   | (Unaudited)     |
| Net cash (used in) from operating activities             | (68,915)                      | 57,606          |
| Net cash from (used in) investing activities             | 3,061                         | (155,287)       |
| Net cash from financing activities                       | 58,557                        | 117,480         |
|  | (7,297)                       | 19,799          |
| Net (decrease) increase in cash and cash equivalents     |                               |                 |
| Cash and cash equivalents at the beginning of the period | 22,005                        | (38,806)        |
| Effect of exchange rate changes                          | (493)                         | (14)            |
|  | 14,215                        | (19,021)        |
| Cash and cash equivalents at the end of the period       | 14,215                        | (19,021)        |
| Analysis of the balances of cash and cash equivalents    |                               |                 |
| Bank balances and cash                                   | 14,215                        | 23,621          |
| Bank overdrafts  | –                             | (42,642)        |
|  | 14,215                        | (19,021)        |

### NOTES TO THE CONDENSED FINANCIAL STATEMENTS

*For the six months ended 31st May, 2004*

#### 1. Basis of presentation and principal accounting policies

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities. The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 30th November, 2003.

#### 2. Turnover

Turnover represents the aggregate of the amounts received and receivable from sales of properties, property rental income and cosmetics goods sold to outside customers less returns.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 3. Segment information

#### *Business segments*

|                                | Property development |                 | Property leasing |                | Cosmetics        |                | Other operations |                | Consolidated     |                 |
|--------------------------------|----------------------|-----------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|-----------------|
|                                | Six months ended     |                 | Six months ended |                | Six months ended |                | Six months ended |                | Six months ended |                 |
|                                | 31st May,            |                 | 31st May,        |                | 31st May,        |                | 31st May,        |                | 31st May,        |                 |
|                                | 2004                 | 2003            | 2004             | 2003           | 2004             | 2003           | 2004             | 2003           | 2004             | 2003            |
|                                | <i>HKS'000</i>       | <i>HKS'000</i>  | <i>HKS'000</i>   | <i>HKS'000</i> | <i>HKS'000</i>   | <i>HKS'000</i> | <i>HKS'000</i>   | <i>HKS'000</i> | <i>HKS'000</i>   | <i>HKS'000</i>  |
| Segment turnover               | <u>2,136</u>         | <u>105,963</u>  | <u>16,075</u>    | <u>13,929</u>  | <u>2,156</u>     | <u>2,402</u>   | -                | -              | <u>20,367</u>    | <u>122,294</u>  |
| Segment result                 | <u>(1,667)</u>       | <u>(12,235)</u> | <u>13,134</u>    | <u>8,764</u>   | <u>584</u>       | <u>994</u>     | -                | -              | <u>12,051</u>    | <u>(2,477)</u>  |
| Unallocated corporate expenses |                      |                 |                  |                |                  |                |                  |                | (3,612)          | (7,387)         |
| Profit (loss) from operations  |                      |                 |                  |                |                  |                |                  |                | 8,439            | (9,864)         |
| Finance costs                  |                      |                 |                  |                |                  |                |                  |                | (2,384)          | (4,395)         |
| Investment income (loss)       |                      |                 |                  |                |                  |                |                  |                | 2,771            | (1)             |
| Other gain (loss)              | 158                  | (87,237)        | -                | (551)          | -                | -              | -                | -              | 158              | (87,788)        |
| Share of results of associates | (614)                | (359)           | -                | 930            | (25)             | (27)           | 604              | 590            | (35)             | 1,134           |
| Profit (loss) before taxation  |                      |                 |                  |                |                  |                |                  |                | 8,949            | (100,914)       |
| Taxation                       |                      |                 |                  |                |                  |                |                  |                | (2,738)          | 1,340           |
| Profit (loss) after taxation   |                      |                 |                  |                |                  |                |                  |                | <u>6,211</u>     | <u>(99,574)</u> |

#### *Geographical segments*

|   | Turnover by geographical market |                | Contribution to profit (loss) from operations |                |
|---|---------------------------------|----------------|---|----------------|
|   | Six months ended                |                | Six months ended                              |                |
|   | 31st May,                       |                | 31st May,                                     |                |
|   | 2004                            | 2003           | 2004  | 2003           |
|   | <i>HKS'000</i>                  | <i>HKS'000</i> | <i>HKS'000</i>                                | <i>HKS'000</i> |
| Hong Kong   | 7,232                           | 111,902        | 4,560   | (9,031)        |
| Elsewhere in the People's Republic of China ("PRC") | 13,135                          | 10,392         | 7,491   | 6,554          |
|   | <u>20,367</u>                   | <u>122,294</u> | <u>12,051</u>                                 | <u>(2,477)</u> |
| Unallocated corporate expenses                      |                                 |                | (3,612)                                       | (7,387)        |
| Profit (loss) from operations                       |                                 |                | <u>8,439</u>                                  | <u>(9,864)</u> |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 4. Other operating income

|   | Six months ended<br>31st May, |                 |
|---|-------------------------------|-----------------|
|   | 2004                          | 2003            |
|   | <i>HK\$'000</i>               | <i>HK\$'000</i> |
| Included in other operating income:         |                               |                 |
| Settlement received in respect of a lawsuit | 5,000                         | –               |
| Forfeiture of sales deposits received       | 30                            | 2,231           |
|   | 30                            | 2,231           |

### 5. Staff expenses and depreciation

|                                       | Six months ended<br>31st May, |                 |
|---------------------------------------|-------------------------------|-----------------|
|                                       | 2004                          | 2003            |
|                                       | <i>HK\$'000</i>               | <i>HK\$'000</i> |
| Staff expenses                        |                               |                 |
| – Directors' emoluments               | 500                           | 471             |
| – Other staff expenses                | 1,657                         | 1,950           |
| – Provident fund scheme contributions | 5                             | 60              |
|                                       | 2,162                         | 2,481           |
| Depreciation                          | 148                           | 63              |

### 6. Other operating expenses

|   | Six months ended<br>31st May, |                 |
|---|-------------------------------|-----------------|
|   | 2004                          | 2003            |
|   | <i>HK\$'000</i>               | <i>HK\$'000</i> |
| Provision for litigation claims           | 3,466                         | –               |
| Allowance for loans receivable            | 2,371                         | 1,622           |
| Legal expenses in respect of lawsuits     | 717                           | 3,898           |
| Loss on disposal of investment properties | –                             | 73              |
|   | 6,554                         | 5,593           |

### 7. Finance costs

|  | Six months ended<br>31st May, |                 |
|--|-------------------------------|-----------------|
|  | 2004                          | 2003            |
|  | <i>HK\$'000</i>               | <i>HK\$'000</i> |
| Interest on bank borrowings, overdrafts and other borrowings |                               |                 |
| – wholly repayable within five years                         | 3,355                         | 6,451           |
| – wholly repayable after five years                          | 33                            | –               |
| Other borrowing costs  | 695                           | 9               |
|  | 4,083                         | 6,460           |
| Less: Amount capitalised                                     | (1,699)                       | (2,065)         |
|  | 2,384                         | 4,395           |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 8. Investment income (loss)

|  | Six months ended<br>31st May, |                 |
|--|-------------------------------|-----------------|
|  | 2004                          | 2003            |
|  | <i>HK\$'000</i>               | <i>HK\$'000</i> |
| Write-back of allowance for amounts due from an investee company | 2,094                         | –               |
| Interest income  | 699                           | 805             |
| Dividend income – unlisted investments                           | 382                           | –               |
| Unrealised holding loss on other investments                     | (404)                         | (806)           |
|  | <u>2,771</u>                  | <u>(1)</u>      |

### 9. Other gain (loss)

|  | Six months ended<br>31st May, |                 |
|--|-------------------------------|-----------------|
|  | 2004                          | 2003            |
|  | <i>HK\$'000</i>               | <i>HK\$'000</i> |
| Impairment loss written-back (recognised) on amounts due from associates | <u>158</u>                    | <u>(87,788)</u> |

### 10. Taxation

|                                    | Six months ended<br>31st May, |                 |
|------------------------------------|-------------------------------|-----------------|
|                                    | 2004                          | 2003            |
|                                    | <i>HK\$'000</i>               | <i>HK\$'000</i> |
| The (charge) credit comprises:     |                               |                 |
| <i>Current tax</i>                 |                               |                 |
| The Company and subsidiaries       |                               |                 |
| – Hong Kong                        |                               |                 |
| current period                     | (188)                         | (578)           |
| prior periods                      | 7                             | 2,542           |
| – Other than Hong Kong             | (124)                         | (93)            |
|                                    | <u>(305)</u>                  | <u>1,871</u>    |
| Associates                         |                               |                 |
| – Hong Kong                        | (111)                         | (103)           |
| – Other than Hong Kong             | –                             | 62              |
|                                    | <u>(111)</u>                  | <u>(41)</u>     |
|                                    | <u>(416)</u>                  | <u>1,830</u>    |
| <i>Deferred tax</i>                |                               |                 |
| The Company and subsidiaries       |                               |                 |
| – Hong Kong                        |                               |                 |
| current period                     | 629                           | 1,725           |
| attributable to change in tax rate | –                             | 124             |
| – Other than Hong Kong             | (2,951)                       | (2,339)         |
|                                    | <u>(2,322)</u>                | <u>(490)</u>    |
|                                    | <u>(2,738)</u>                | <u>1,340</u>    |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

Hong Kong Profits Tax has been provided for at the rate of 17.5% (six months ended 31st May, 2003: 17.5%) on the estimated assessable profits for the period. Taxation on profits of subsidiaries and associates arising outside Hong Kong has been provided for in accordance with the relevant local jurisdictions.

Deferred tax has been provided for at the rates that are expected to be applied in the period when the liability is settled or the asset is realised.

### 11. Basic earnings (loss) per share

The calculation of the basic earnings (loss) per share is based on the profit attributable to shareholders for the six months ended 31st May, 2004 of HK\$6,430,000 (six months ended 31st May, 2003: loss attributable to shareholders of HK\$95,674,000) and on 959,899,416 (six months ended 31st May, 2003: 959,899,416) ordinary shares in issue throughout the period.

### 12. Investment properties

The Directors considered that the carrying amount of the Group's investment properties at 31st May, 2004 did not differ significantly from the revalued amount at 30th November, 2003. Consequently, no revaluation surplus or deficit was recognised in the current period.

### 13. Accounts receivable, deposits and prepayments

The Group operates a controlled credit policy and allows an average credit period of 30 to 90 days to its trade customers who satisfy the credit evaluation. Included in accounts receivable, deposits and prepayments is trade receivable of HK\$1,161,000 (30th November, 2003: HK\$1,054,000).

The aged analysis of the trade receivable is as follows:

|              | <b>31st May,<br/>2004</b> | 30th November,<br>2003 |
|--------------|---------------------------|------------------------|
|              | <i>HK\$'000</i>           | <i>HK\$'000</i>        |
| 0 – 30 days  | 596                       | 498                    |
| 31 – 90 days | 151                       | 226                    |
| Over 90 days | 414                       | 330                    |
|              | <b>1,161</b>              | <b>1,054</b>           |
|              | <b>1,161</b>              | <b>1,054</b>           |

### 14. Accounts payable, deposits received and accruals

Included in accounts payable, deposits received and accruals is trade payable of HK\$173,000 (30th November, 2003: HK\$117,000).

The aged analysis of the trade payable is as follows:

|             | <b>31st May,<br/>2004</b> | 30th November,<br>2003 |
|-------------|---------------------------|------------------------|
|             | <i>HK\$'000</i>           | <i>HK\$'000</i>        |
| 0 – 90 days | 173                       | 117                    |
|             | <b>173</b>                | <b>117</b>             |
|             | <b>173</b>                | <b>117</b>             |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 15. Borrowings

|   | <b>31st May,<br/>2004</b> | 30th November,<br>2003 |
|---|---------------------------|------------------------|
|   | <i>HK\$'000</i>           | <i>HK\$'000</i>        |
| Bank borrowings   | 316,241                   | 255,865                |
| Other borrowings  | 1,092                     | 1,092                  |
|   | <u>317,333</u>            | <u>256,957</u>         |
| Less: Amount due within one year and<br>shown under current liabilities | <u>(16,778)</u>           | <u>(17,492)</u>        |
| Amount due after one year   | <u><u>300,555</u></u>     | <u><u>239,465</u></u>  |

### 16. Share capital

|   | <b>Number of<br/>shares</b> | <b>Share<br/>capital</b> |
|---|-----------------------------|--------------------------|
|   |                             | <i>HK\$'000</i>          |
| Ordinary shares of HK\$0.40 each                              |                             |                          |
| <b>Authorised:</b>  |                             |                          |
| At 1st December, 2002, 30th November, 2003 and 31st May, 2004 | <u>3,000,000,000</u>        | <u>1,200,000</u>         |
| <b>Issued and fully paid:</b>                                 |                             |                          |
| At 1st December, 2002, 30th November, 2003 and 31st May, 2004 | <u>959,899,416</u>          | <u>383,960</u>           |

### 17. Commitments and contingent liabilities

At the balance sheet date, the Group had the following commitments and contingent liabilities not provided for in the financial statements:

|   | <b>31st May,<br/>2004</b> | 30th November,<br>2003 |
|---|---------------------------|------------------------|
|   | <i>HK\$'000</i>           | <i>HK\$'000</i>        |
| (a) Commitments contracted but not provided for in respect of<br>properties development   | <u>629,588</u>            | <u>703,537</u>         |
| (b) Guarantees given to banks and financial institutions for general<br>facilities made available to associates and an investee company | <u>342,349</u>            | <u>344,595</u>         |

### 18. Related party transactions

During the period, the Group entered into the following transactions with related parties:

|   | <b>Six months ended</b> |                 |
|---|-------------------------|-----------------|
|   | <b>31st May,</b>        |                 |
|   | <b>2004</b>             | <b>2003</b>     |
|   | <i>HK\$'000</i>         | <i>HK\$'000</i> |
| Interest paid/payable to ultimate holding company | 2,181                   | 2,565           |
| Interest receivable from an associate             | <u>27</u>               | <u>28</u>       |

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

Chinese Estates, Limited (“CEL”), a wholly-owned subsidiary of Chinese Estates Holdings Limited (“Chinese Estates”), performed certain administrative services for the Group, for which a management fee of HK\$24,000 (six months ended 31st May, 2003: HK\$24,000) was charged for the current period, being an appropriate allocation of costs incurred by relevant administrative departments.

Shanghai Golden Sea Building Limited (“SGS”), a wholly-owned subsidiary of the Company, entered into a tenancy agreement with Evergo Holdings (China) Company Limited (“Evergo BVI”), a wholly-owned subsidiary of Chinese Estates, pursuant to which SGS agreed to lease to Evergo BVI B1 Unit 03 of Peregrine Plaza, Shanghai, the PRC for a period of two years commencing from 1st July, 2003 to 30th June, 2005 at a monthly rental of US\$502.

The House of Kwong Sang Hong Limited (“HKSH”), a wholly-owned subsidiary of the Company, entered into a licence agreement with Hillsborough Holdings Limited (“Hillsborough”), a wholly-owned subsidiary of Chinese Estates, pursuant to which Hillsborough agreed to lease to HKSH Shop No. 3 on the Mezzanine Floor of Causeway Place, Hong Kong Mansion, Causeway Bay, Hong Kong commencing from 27th September, 2002 at 35% of gross revenue of the shop per month. The licence is of monthly basis and will be renewed automatically from month to month, until and unless such licence to be terminated by either party with one month’s prior notice at any time.

HKSH entered into a licence agreement with Great King Limited (“Great King”), a 57.56% owned subsidiary of Chinese Estates, pursuant to which Great King agreed to lease to HKSH Shop No. 147 on the 1st Floor of Yuen Long New Place, Golden Hall Building, Yuen Long, New Territories, Hong Kong commencing from 23rd July, 2003 at 10% of gross revenue of the shop per month. The licence was terminated on 31st May, 2004.

HKSH also entered into a licence agreement with East Step Limited, currently known as Chinese Estates (Tung Ying Building) Limited (“CETY”), a wholly-owned subsidiary of Chinese Estates, pursuant to which CETY agreed to lease to HKSH a Promotion Space on the Lower Ground Floor of Tung Ying Building, Tsim Sha Tsui, Kowloon, Hong Kong commencing from 1st February, 2004 at 20% of gross revenue of the promotion counter per month. The licence is of monthly basis and will be renewed automatically from month to month, until such licence to be terminated by either party with seven days’ prior notice at any time.

The Kwong Sang Hong Limited (“KSH”), a wholly-owned subsidiary of the Company, entered into a sub-lease agreement with CEL, pursuant to which CEL agreed to sub-lease to KSH Room 102 on the 1st Floor of MassMutual Tower, Wanchai, Hong Kong for a period of two years commencing from 1st March, 2002 to 29th February, 2004 at a monthly rental of HK\$16,000.

The Kwong Sang Hong Estate Agents Limited (“KSHEA”), a wholly-owned subsidiary of the Company, entered into a sub-lease agreement with CEL, pursuant to which CEL agreed to sub-lease to KSHEA Room 102 on the 1st Floor of MassMutual Tower, Wanchai, Hong Kong for a period of two years commencing from 1st March, 2004 to 28th February, 2006 at a monthly rental of HK\$10,312.

Polyco Development Limited (“Polyco”), a 80% owned subsidiary of the Company, entered into a tenancy agreement with CEL, pursuant to which Polyco agreed to lease to CEL Workshops Nos. 1-8 on the 18th to 20th Floors of Kwong Kin Trade Centre, Tuen Mun, New Territories, Hong Kong for a period of two years commencing from 1st June, 2002 to 31st May, 2004 at a monthly rental and management fee of HK\$27,684 and HK\$32,094 respectively.

### 19. Litigation

A legal action against the Group was taken by a Chinese joint venture partner. On 17th May, 1996, Hubei Provincial High Court (the “Hubei Court”) imposed a judgment against the Group in favour of the Chinese joint venture partner in relation to the former joint development of Shuohu Court in Wuhan (the “Development”). The judgment, which the Group appealed against, in effect nullified the joint development agreement for the Development. On 28th May, 1998, the Supreme People’s Court of the PRC (the “Supreme Court”) dismissed the appeal of the Group but, inter alia, reduced the amount of the judgment sum of the Hubei Court issued on 17th May, 1996. However, the Group disputed the quantification and had lodged an appeal for re-trial. The appeal was formally accepted on 14th March, 2002 and hearing was twice conducted on 23rd May, 2002 and 14th June, 2002. At present, the Group is still waiting for the judgment to be delivered from the Supreme Court on the re-trial.

As a result of the foregoing, a total provision of HK\$68.2 million (30th November, 2003: HK\$64.8 million) was made, of which HK\$51.4 million (30th November, 2003: HK\$51.4 million) was made against the investment cost paid. The remaining HK\$16.8 million (30th November, 2003: HK\$13.4 million) was provided against damages, legal costs and interest charged. The Directors believe that no further provision is required at this stage.



## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 4. SHARE CAPITAL

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

|                       | Number of KSH Shares<br>of HK\$0.40 each | Nominal value<br><i>HK\$'000</i> |
|-----------------------|--|----------------------------------|
| Authorised            | <u>3,000,000,000</u>                     | <u>1,200,000</u>                 |
| Issued and fully paid | <u>959,899,416</u>                       | <u>383,960</u>                   |

There was no movement in the share capital for the period between 30th November, 2003 and the Latest Practicable Date.

Each KSH Share ranks pari passu in all respects, including dividends, voting and capital.

As at the Latest Practicable Date, KSH did not have any warrants, options, convertible securities or other securities in issue. None of the unissued share or loan capital of KSH is subject to any warrants, options or conversion rights and it has not been agreed, conditionally or unconditionally, to put any of the unissued share or loan capital of KSH under any warrants, options or conversion rights.

### 5. INDEBTEDNESS

As at the close of business on 31st October, 2004, the KSH Group had outstanding bank loans of approximately HK\$451.4 million and the unsecured loan from ultimate holding company of approximately HK\$152.7 million. The bank loans were secured over certain properties of the KSH Group.

In addition to the aforesaid liabilities, as at the close of business on 31st October, 2004, the KSH Group had contingent liabilities in the amount of approximately HK\$342.7 million in respect of guarantees given to banks and financial institutions for facilities utilized by its associated companies and investee company of the KSH Group. The KSH Group had commitments in the amount of about HK\$499.6 million in respect of development costs of properties contracted but not provided for in the financial statements.

Save as aforesaid and apart from intra-group liabilities, the KSH Group did not have at the close of business on 31st October, 2004 any outstanding loan capital, bank overdrafts, loans or other similar indebtedness, debt securities, debentures, mortgages, charges, finance lease commitments, guarantees or other material contingent liabilities.

The KSH Directors are not aware of any material changes to the indebtedness and contingent liabilities of the KSH Group since 31st October, 2004.

### 6. MATERIAL CHANGES

Save for the increase in banks loans from approximately HK\$255.9 million as at 30th November, 2003 to approximately HK\$451.4 million as at 31st October, 2004 as disclosed in the paragraph headed "Indebtedness" above, the KSH Directors are not aware of any material changes in the financial or trading position or prospect of the KSH Group since 30th November, 2003, the date to which the latest audited consolidated financial statements of the KSH Group were made up.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP

### 7. PROFORMA STATEMENT OF ADJUSTED UNAUDITED CONSOLIDATED NET TANGIBLE ASSETS

The following is a proforma statement of adjusted unaudited consolidated net tangible assets of the KSH Group which has been prepared for the purpose of illustrating the effect of the Proposal and because of its nature it may not give a true picture of the financial position or results of the KSH Group. This statement is based on the unaudited consolidated net tangible assets of the KSH Group as at 31st May, 2004 as shown in the published unaudited financial statements of the KSH Group for the six months ended 31st May, 2004, and adjusted as follows:

| <b>Unaudited<br/>consolidated<br/>net tangible<br/>assets of the<br/>KSH Group<br/>as at 31st<br/>May, 2004<br/>HK\$'000<br/>(Note 1)</b> | <b>Estimated<br/>costs in<br/>connection<br/>with the<br/>Proposal<br/>HK\$'000<br/>(Note 2)</b> | <b>Proforma<br/>adjusted<br/>unaudited<br/>consolidated<br/>net tangible<br/>assets<br/>HK\$'000<br/>(Note 3)</b> | <b>Proforma<br/>adjusted<br/>unaudited<br/>consolidated<br/>net tangible<br/>asset value per<br/>KSH Share<br/>HK\$<br/>(Note 4)</b> |
|---|--|---|--|
| 1,289,881   | (3,000)  | 1,286,881   | 1.34   |

Notes:

1. This amount is extracted from the section headed "Unaudited condensed consolidated financial statements for the six months ended 31st May, 2004" in this appendix, which contains the text of the published interim report of the KSH Group for the six months ended 31st May, 2004.
2. Estimated costs in connection with the Proposal include financial advisory and documentation fees, legal and other professional fees, printing and other expenses relating to the Proposal to be borne by KSH.
3. Norton Appraisals, an independent property valuer, has performed valuations of the property interests of KSH and its subsidiaries as at 31st October, 2004. The surplus less deficits in the amount of approximately HK\$282.2 million that arrived at after i) deducting the carrying amount of such property interests as recorded in the books of the KSH Group as at 31st May, 2004 (except for properties under development for sale as recorded in the books of the KSH Group as at 31st October, 2004); and ii) taking into account of appropriate tax liabilities, has not been taken into account in the above statement.

The proforma net revaluation surplus less taxation of approximately HK\$282.2 million, of which i) approximately HK\$1.1 million surplus is attributable to investment properties; ii) approximately HK\$305.1 million surplus is attributable to properties under development for sale; iii) approximately HK\$3.6 million deficit is attributable to one of the properties held for sale; iv) approximately HK\$4.5 million surplus is attributable to other properties held for sale; and v) deficit of approximately HK\$24.9 million is in relation to properties held for development.

The KSH Group has adopted the accounting policies, which are in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, that any revaluation surplus or deficit from investment properties has been and will be taken into account in the financial statements of the KSH Group while properties held for sale have been and will be stated at the lower of costs and net realisable values in the financial statements. For properties under development for sale and properties held for development, however, no revaluation surplus or deficit has been and will be accounted for. For illustrative purpose only, the net revaluation surplus less taxation relating to the investment properties of approximately HK\$1.1 million and the revaluation deficit for properties held for sale (assuming the net realisable value is equal to the valuation amount and lower than the cost) of approximately HK\$3.6 million based on the valuations as at 31st October, 2004 will be reflected in the financial statements of the KSH Group for the year ended 30th November 2004, but the finalised figures will be subject to the valuations carried out at the financial year end date of KSH.

## **APPENDIX I FINANCIAL INFORMATION RELATING TO THE KSH GROUP**

In addition, Norton Appraisals has performed valuation on the Tai Yuen Street/Wan Chai Road redevelopment project which is developed by an associated company of the KSH Group. The revaluation surplus of approximately HK\$188.8 million attributable to the KSH Group based on the open market value in its existing state as at 31st October, 2004 has not been taken into account in the above statement.

Your attention is drawn to the property valuation report of Norton Appraisals which is set out in Appendix II to this document.

4. The proforma adjusted unaudited consolidated net tangible asset value per KSH Share is calculated based on 959,899,416 KSH Shares in issue as at the Latest Practicable Date.

The text of the report from Deloitte Touche Tohmatsu in respect of the proforma adjusted unaudited consolidated net tangible assets above is set out in Appendix III to this document.

*This following is the letter and summary of valuation extracted from the property valuation report, prepared for the purpose of inclusion in this document in connection with the valuations of the property interests of the KSH Group in Hong Kong and the PRC as at 31st October, 2004 by Norton Appraisals, setting out the basis of their valuations:*



Room 3830-32, Sun Hung Kai Centre  
30 Harbour Road  
Wanchai Hong Kong  
Tel: (852) 2810 7337 Fax: (852) 2810 6337

13th December, 2004

The Directors  
The Kwong Sang Hong International Limited  
26/F, MassMutual Tower  
No. 38 Gloucester Road  
Wanchai  
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the property interests held by The Kwong Sang Hong International Limited (hereinafter referred to as the “Company”) and its subsidiaries (hereinafter together referred to as the “Group”) in the Hong Kong Special Administrative Region (“Hong Kong”) and the People’s Republic of China (the “PRC”), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of such property interests as at 31st October, 2004 (hereinafter referred to as the “date of valuation”).

Our valuations are our opinion of the open market value 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 the seller and the buyer to the transaction had acted knowledgeably, prudently and without compulsion.”

In valuing the property interests, we have assumed that the Group has valid and enforceable title to the property interests which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired lease/land use terms granted subject to payment of annual Government rents/land use fees and all requisite land premiums/purchase consideration payable have been fully settled.

We have valued the properties on the basis that each of them is considered individually. We have not allowed for any discount for the properties to be sold to a single party nor have taken into account any effect on the values if the properties are to be offered for sale at the same time as a portfolio.

In valuing the property interests under Groups I and IV which are held for investment purpose by the Group in Hong Kong and the PRC respectively, we have adopted the Investment Approach by taking into account the current passing rents and the reversionary income potential of the tenancies.

In valuing the property interests under Group II which are held for sale by the Group in Hong Kong, we have adopted the Direct Comparison Approach by making reference to comparable transactions as available in the relevant markets.

In valuing the property interests under Group III which are held under development for sale and the interest under Group VI which is held under contractual arrangement by the Group in Hong Kong, we have valued each of them on the basis that the properties/project will be developed in accordance with the latest development proposals provided to us by the Group. We have assumed that approvals for the proposed developments have been obtained.

In arriving at our opinion of the value of each of these property interests, we have adopted the Direct Comparison Approach by making reference to comparable transactions as available in the relevant market and have also taken into account the construction costs that will be expended to complete the developments to reflect the development potential of the properties and the quality of the completed developments. The “capital value when completed” represents our opinion of the aggregate selling prices of the development assuming that it would have been completed at the date of valuation.

In valuing the property interests under Group V which are held for future development by the Group in Hong Kong, we have valued the property interests by the Direct Comparison Approach assuming such property interests are available for sale in existing state with the benefit of vacant possession and by making reference to comparable transactions as available in the relevant market.

Our valuations have been made on the assumption that the Group sells the properties on the open market in their existing states without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of such property interests.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting sales of the properties and no forced sale situation in any manner is assumed in our valuations.

In valuing those property interests located in Hong Kong, the Government Leases of which have expired before 30th June, 1997, we have taken into account the provisions contained in the Basic Law of Hong Kong and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without any payment of additional premium until 30th June, 2047 and that an annual rent equivalent to three per cent of the rateable value of each of the properties will be charged from the date of extension.

For those properties located in Hong Kong, we have, as agreed with the Group, caused sampling title searches at the relevant Land Registries. We have not, however, searched the original documents to verify ownership or to determine the existence of any lease modifications/amendments which do not appear on the copies handed to us.

For those properties located in the PRC, we have been provided with extracts of title documents of the property interests but have not scrutinized the original documents. We have relied on the advice given by the Group and its legal adviser on the PRC Law, GFE Law Office (also known as Guangzhou Foreign Economic Law Office) (the “PRC legal adviser”), regarding the title to each of the properties in Group IV.

All dimensions, measurements and areas included in the attached valuation certificates are based on information contained in the documents provided to us by the Group and are only approximations.

We have inspected the exterior and, where possible, the interior of the properties. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the properties are free from rot, infestation or other defects. No tests were carried out on any of the services.

We have relied to a considerable extent on the information provided by the Group and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, completion dates of buildings, particulars of occupancy, tenancy summaries, development proposals, construction costs already expended, estimated outstanding construction costs, site and floor areas and all other relevant matters in the identification of the properties in which the Group has valid interests.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We are also advised by the Group 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 we have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on any of the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from all encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our valuations have 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. Our valuations have also been prepared under the generally accepted valuation procedures and are in compliance with the requirement as stated in the Code on Takeovers and Mergers issued by The Securities and Futures Commission and the Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all sums stated in our valuation certificates are in Hong Kong Dollars. The exchange rates adopted in our valuations are approximately HK\$1=RMB1.06 and USD1=HK\$7.8 which were approximately the prevailing exchange rates at the date of valuation.

Our Summary of Values and the Valuation Certificates are enclosed herewith.

Yours faithfully,  
For and on behalf of  
**Norton Appraisals Limited**  
**M. K. Wong** *MRICS, MHKIS, RPS (G.P.)*  
*Director*

*Note:* Mr. M. K. Wong is a Registered Professional Surveyor who has more than 11 years’ experience in valuation of properties in Hong Kong and in the PRC.

## Summary of Values

| Property   | Capital value in existing state as at 31st October, 2004<br><i>HK\$</i> | Interest attributable to the Group in Percentage | Capital value attributable to the Group as at 31st October, 2004<br><i>HK\$</i> |
|--|---|--|---|
| <b>Group I – Property interests held for investment in Hong Kong</b>   |   |  |   |
| 1 7th and 11th Floors, Chuang's Enterprises Building, No. 382 Lockhart Road, Wan Chai, Hong Kong   | 10,300,000  | 100%   | 10,300,000  |
| 2 Various workshops, parking spaces and the roof in Hing Wai Centre, No. 7 Tin Wan Praya Road, Aberdeen, Hong Kong                               | 72,300,000  | 100%   | 72,300,000  |
| <b>Sub-total:</b>  | <b>82,600,000</b>   |  | <b>82,600,000</b>   |
| <b>Group II – Property interests held for sale in Hong Kong</b>  |   |  |   |
| 3 Various industrial units and parking spaces and the roof in Kwong Kin Trade Centre, No. 5 Kin Fat Street, Tuen Mun, New Territories, Hong Kong | 38,000,000  | 80%  | 30,400,000  |
| 4 Shops 5 and 6 on Ground Floor, Park Mansion, No. 3 Ting Yue Square, Ngau Tau Kok, Kowloon, Hong Kong   | 2,300,000   | 70%  | 1,610,000   |
| 5 2 residential units and various parking spaces in Greenville Residence, No. 38 Sha Tseng Road, Yuen Long, New Territories, Hong Kong           | 7,400,000   | 100%   | 7,400,000   |
| <b>Sub-total:</b>  | <b>47,700,000</b>   |  | <b>39,410,000</b>   |
| <b>Group III – Property interests held under development for sale in Hong Kong</b>   |   |  |   |
| 6 Indihome, No. 138 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong   | 1,278,000,000   | 100%   | 1,278,000,000   |
| 7 Lot No. 1861 in Demarcation District 100, Fan Kam Road, Ying Pun, Sheung Shui, New Territories, Hong Kong                                      | 287,000,000   | 100%   | 287,000,000   |
| <b>Sub-total:</b>  | <b>1,565,000,000</b>  |  | <b>1,565,000,000</b>  |

| Property   | Capital value in<br>existing state as at<br>31st October, 2004<br><i>HK\$</i> | Interest<br>attributable<br>to the Group<br>in Percentage | Capital value<br>attributable to<br>the Group as at<br>31st October, 2004<br><i>HK\$</i> |
|--|---|---|--|
| <b>Group IV – Property interests held for investment in the PRC</b>  |   |   |  |
| 8 Level 50 of Main Tower of Shun Hing Square,<br>Jiefang Road, Luohu District, Shenzhen,<br>Guangdong Province, the PRC              | 30,700,000  | 100%  | 30,700,000   |
| 9 Unsold portions of Peregrine Plaza,<br>No. 1325 Huaihai Zhong Road and<br>No. 1 Baoqing Road, Xuhui District,<br>Shanghai, the PRC | 393,000,000   | 100%  | 393,000,000  |
| <b>Sub-total:</b>  | <b>423,700,000</b>  |   | <b>423,700,000</b>   |
| <b>Group V – Property interests held for future development in Hong Kong</b>   |   |   |  |
| 10 10 lots in Demarcation District 77<br>and 183 lots in Demarcation District 79,<br>Fanling, New Territories, Hong Kong             | 93,000,000  | 50%   | 46,500,000   |
| 11 47 lots in Demarcation District 79,<br>Fanling, New Territories, Hong Kong  | 16,500,000  | 87.50%  | 14,437,500   |
| <b>Sub-total:</b>  | <b>109,500,000</b>  |   | <b>60,937,500</b>  |
| <b>Group VI – Interest held under contractual arrangement in Hong Kong</b>   |   |   |  |
| 12 Development Project at Tai Yuen Street/<br>Wan Chai Road, Wan Chai,<br>Hong Kong  | 1,426,000,000   | 25%   | 356,500,000  |
| <b>Sub-total:</b>  | <b>1,426,000,000</b>  |   | <b>356,500,000</b>   |
| <b>Grand Total:</b>  | <b>3,654,500,000</b>  |   | <b>2,528,147,500</b>   |



## Valuation Certificate

## Group I – Property interests held for investment in Hong Kong

| Property   | Description and tenure   | Particulars of occupancy   | Capital value in existing state as at 31st October, 2004                    |
|--|--|--|---|
| 1 7th and 11th Floors, Chuang's Enterprises Building, No. 382 Lockhart Road, Wan Chai, Hong Kong   | The property comprises the whole of office space on the 7th and 11th Floors in a 24-storey (including a mechanical floor) office building completed in 1995.   | Units 1101, 1102 and 1104 of the property with a total gross floor area of 149.94 sq.m. (1,614 sq.ft.) are let under two separate tenancies yielding a total monthly rent of \$13,048 exclusive of rates and management fees whilst the remaining portion is vacant. | \$10,300,000<br><br>(100% interest attributable to the Group: \$10,300,000) |
| 2,770/46,437th shares of and in Sub-section 1 and the Remaining Portion of Section B and the Remaining Portion of Section A of Inland Lot No. 2618 (the "Lot") | The total gross floor area of the property is approximately 468.23 sq.m. (5,040 sq.ft.).<br><br>The Lot is held under a Government lease for a term of 99 years commencing from 1st July, 1927 renewable for a further term of 99 years. |  |   |

*Notes:*

- (1) The registered owner of the property is Twin Sparkle Investment Limited, which is a wholly-owned subsidiary of the Group, vide Memorial No. 6793064 dated 30th September, 1996.
- (2) The property is subject to a mortgage to secure general banking facilities in favour of Liu Chong Hing Bank Limited and the consideration is to an unlimited extent vide Memorial No. 9217305 dated 16th April, 2004.
- (3) It is advised by the Group that disposal of the property at the amount of its open market value as at 31st October, 2004 as shown above will not give rise to any potential tax liability when considering the annual allowance for commercial buildings as defined under Inland Revenue Ordinance of the property.

| Property  | Description and tenure   | Particulars of occupancy   | Capital value in existing state as at 31st October, 2004                           |
|---|--|--|--|
| 2 Various workshops, parking spaces and the roof in Hing Wai Centre, No. 7 Tin Wan Praya Road, Aberdeen, Hong Kong<br><br>11,027/102,588th and 10/11th of 11/102,588th shares of and in Aberdeen Inland Lot No. 414 (the "Lot") | <p>The property comprises various workshops together with 23 car parking spaces on ground/upper ground floors and the roof of a 35-storey (including one basement and one refuge floor) industrial building completed in 1990.</p> <p>The total gross floor area of the property (excluding car parking spaces and the roof) is approximately 12,237.74 sq.m. (131,727 sq.ft.).</p> <p>The Lot is held under Conditions of Exchange No. 12040 for a term commencing from 21st January, 1989 and expiring on 30th June, 2047.</p> | <p>With the exception of approximately 5,136.47 sq.m. (55,289 sq.ft.) gross floor area which is vacant, the property is let under various tenancies for terms mostly of two years, with the latest one expiring on 1st April, 2007 yielding a total monthly rent of approximately \$306,000 mostly inclusive of rates, government rent and management fee.</p> <p>The car parking spaces are let on monthly or hourly basis at average aggregate monthly income of approximately \$62,900.</p> <p>The roof is subject to 4 licence agreements for terms of two to three years, with the latest one expiring on 31st December, 2007 at a total monthly licence fee of \$66,000.</p> | <p>\$72,300,000</p> <p>(100% interest attributable to the Group: \$72,300,000)</p> |

*Notes:*

- (1) The property comprises the whole of 5th, 13th, 16th and 17th Floors, Unit Nos. 6, 11 to 13, Storerooms and Reserved Spaces on 6th Floor, Reserved Spaces on 7th Floor and 8th Floor, the Roof, Car Parking Space Nos. V3, V4, V14 to V16, L1 to L6, L19, L20 and C1 and Reserved Spaces on the Ground Floor Garage and Car Parking Space Nos. V1 to V5, V11, V12, V24 and V37 and Reserved Spaces on the Upper Ground Floor Garage of Hing Wai Centre.
- (2) The registered owner of the property is Hit City Limited, which is a wholly-owned subsidiary of the Group, vide Memorial No. 7578353 dated 4th September, 1998.
- (3) The property is subject to a mortgage to secure general banking facilities in favour of Liu Chong Hing Bank Limited and the consideration is to an unlimited extent vide Memorial No. 9217305 dated 16th April, 2004.
- (4) It is advised by the Group that disposal of the property at the amount of its open market value as at 31st October, 2004 as shown above will not give rise to any potential tax liability as the disposal will result in a loss given that the book value of the property is higher than the open market value of the property as at 31st October, 2004.

## Group II – Property interests held for sale in Hong Kong

| Property   | Description and tenure   | Particulars of occupancy  | Capital value in existing state as at 31st October, 2004                          |
|--|--|---|---|
| 3 Various industrial units and parking spaces and the roof in Kwong Kin Trade Centre, No. 5 Kin Fat Street, Tuen Mun, New Territories, Hong Kong<br><br>1,943/3,813th shares of and in the Remaining Portion of Castle Peak Town Lot No. 9 (the "Lot") | <p>The property comprises 93 industrial units, 11 van parking spaces and 12 lorry parking spaces in a 27-storey industrial building completed in 1994.</p> <p>The total gross floor area of the property (excluding the parking spaces) is approximately 10,198.72 sq.m. (109,779 sq.ft.).</p> <p>The Lot is held under New Grant No. 1499 for a term of 99 years less the last three days thereof from 1st July, 1898 which is statutorily extended to 30th June, 2047.</p> | <p>Portions of the property, having a total gross floor area of approximately 5,490.06 sq.m. (59,095 sq.ft.) are subject to various tenancies for terms of 5 months to 3 years mostly inclusive of management fee, rates and government rent with the latest expiring on 20th March, 2007 and 8 van parking spaces and 9 lorry parking spaces which are subject to various monthly licences, the remaining of the property is currently vacant.</p> <p>The total monthly income for the leased industrial units is approximately \$107,600 and the total licence fee for the car parking spaces is approximately \$49,200 per month.</p> <p>The roof is subject to a licence agreement for a term of 3 years expiring on 14th March, 2007 at a monthly licence fee of \$13,800.</p> | <p>\$38,000,000</p> <p>(80% interest attributable to the Group: \$30,400,000)</p> |

## Notes:

- (1) The property comprises Workshops 1, 2, 4, 6 to 8, 10 on 2nd Floor, Workshops 1 to 8 and their Flat Roofs on 3rd Floor, Workshops 4 on 6th and 7th Floors, Workshop 7 on 9th Floor, Workshop 4 on 10th Floor, Workshop 5 on 11th Floor, Workshops 5 to 8 on 15th Floor, Workshops 4, 6 to 8 on 16th Floor, Workshop 4 on 17th Floor, Workshops 1 to 8 on 18th to 20th, 22nd, 23rd, 25th to 27th Floors, Van Parking Spaces 1, 2, 3, 5 to 8 on Ground Floor, Van Parking Spaces 9 to 12 on 1st Floor, Lorry Parking Spaces L1 to L3 and L5 on Ground Floor and Lorry Parking Spaces L6 to L13 on 1st Floor of Kwong Kin Trade Centre.
- (2) The registered owner of the property is Polyco Development Limited, in which the Group has an attributable interest of 80 per cent, vide Memorial No. 532267 dated 2nd January, 1992.
- (3) It is advised by the Group that disposal of the property at the amount of its open market value as at 31st October, 2004 as shown above will not give rise to any potential tax liability as the disposal will result in a loss given that the book value of the property is higher than the open market value of the property as at 31st October, 2004.

| Property   | Description and tenure  | Particulars of occupancy  | Capital value in existing state as at 31st October, 2004 |
|--|---|---|--|
| 4 Shops 5 and 6 on Ground Floor, Park Mansion, No. 3 Ting Yue Square, Ngau Tau Kok, Kowloon, Hong Kong     | The property comprises two ground floor shops in a 27-storey composite building completed in 1994.  | Shop 6 of the property is let under a tenancy for a term of 3 years expiring on 28th February, 2006 at a monthly rent of \$3,500 exclusive of management fee whilst the remaining shop is currently vacant. | \$2,300,000  |
| 88/4,970th shares of and in New Kowloon Inland Lot Nos. 5201, 5186, 5152, 5153, 5157 and 5143 (the "Lots") | The total gross floor area of the property is approximately 75.72 sq.m. (815 sq.ft.).<br><br>The Lots are held under six Conditions of Grant Nos. 9325, 9307, 9251, 9275, 9241 and 9245 each for a term of 99 years less the last three days thereof from 1st July, 1898, which is statutorily extended to 30th June, 2047. |   | (70% interest attributable to the Group: \$1,610,000)    |

*Notes:*

- (1) The registered owner of the property is Oriental Leader Development Limited, which the Group has an attributable interest of 70 per cent., vide the following Memorials :

| Memorial No.                                    | Date of Instrument  |
|---|---------------------|
| 5233660 (re-registered by Memorial No. 5423480) | 29th February, 1992 |
| 5281366 to 5281374 (both inclusive)             | 30th April, 1992    |
| 5289035 to 5289037 (both inclusive)             | 16th March, 1992    |
| 5289039   | 16th March, 1992    |
| 5321673   | 30th May, 1992      |
| 5321675   | 30th May, 1992      |
| 5321677 to 5321679 (both inclusive)             | 30th May, 1992      |
| 5321681 and 5321682                             | 30th May, 1992      |
| 5321703 and 5321704                             | 30th May, 1992      |
| 5321706 and 5321707                             | 30th May, 1992      |
| 5423480   | 29th February, 1992 |

- (2) It is advised by the Group that disposal of the property at the amount of its open market value as at 31st October, 2004 as shown above will not give rise to any potential tax liability as the disposal will not result in any profit given that the book value of the property is equal to the open market value of the property as at 31st October, 2004.

| Property   | Description and tenure   | Particulars of occupancy                 | Capital value in existing state as at 31st October, 2004                         |
|--|--|--|--|
| 5 2 residential units and various parking spaces in Greenville Residence, No. 38 Sha Tseng Road, Yuen Long, New Territories, Hong Kong<br><br>709/18,944th shares of and in Lot No. 2123 in Demarcation District 121 (the "Lot") | <p>The property comprises 2 residential units, 37 car parking spaces and 10 motor cycle parking spaces in a residential development consisting of 6 blocks of 4-storey residential building completed in 2003.</p> <p>The total gross floor area of the property (excluding the parking spaces) is approximately 121.89 sq.m. (1,312 sq.ft.) plus a flat roof of approximately 42.18 sq.m. (454 sq.ft.)</p> <p>The Lot is held under New Grant No. 4587 for a term of 50 years from 16th February, 2001.</p> | <p>The property is currently vacant.</p> | <p>\$7,400,000</p> <p>(100% interest attributable to the Group: \$7,400,000)</p> |

*Notes:*

- (1) The property comprises Flat B on 5th Floor together with the Flat Roof immediately thereabove of Block 6, Flat B on 2nd Floor of Block 7, Car Parking Spaces Nos. P1, P3, P12, P14 to P18, P22, P23, P25, P26, P28 to P31, P33 to P37, P40, P41, P44 to P46, P61 to P65, P70, P77 to P80 and P85 on Ground Floor and Motor Cycle Parking Spaces Nos. M1 to M10 on Ground Floor of Greenville Residence.
- (2) The registered owner of the property is Rich Century Limited, which is a wholly-owned subsidiary of the Group, held under New Grant No. 4587.
- (3) It is advised by the Group that disposal of the property at the amount of its open market value as at 31st October, 2004 as shown above will not give rise to any potential tax liability when considering the tax loss not yet recognised which is sufficient to offset the profit resulting from the sale of the property at its open market value as at 31st October, 2004.

## Group III – Property interests held under development for sale in Hong Kong

| Property | Description and tenure   | Particulars of occupancy  | Capital value in existing state as at 31st October, 2004      |
|----------|--|---|---|
| 6        | Indihome, No. 138 Yeung Uk Road, Tsuen Wan, New Territories, Hong Kong | The property is currently under construction and is scheduled to be completed around late 2005. | \$1,278,000,000   |
|          | The Remaining Portion of Tsuen Wan Town Lot No. 406 (the "Lot")        |   | (100% interest attributable to the Group:<br>\$1,278,000,000) |

The property comprises a total of 960 apartment units, 200 car parking spaces and 20 motor cycle parking spaces together with shops and recreational facilities. Upon completion, the property will have gross floor area as follows:

|                                     | Approximate<br>Gross Floor Area |                |
|-------------------------------------|---------------------------------|----------------|
|                                     | sq.m.                           | sq.ft.         |
| Residential                         | 52,994.33                       | 570,431        |
| Club house and ancillary facilities | 3,623.19                        | 39,000         |
| Shop                                | 4,459.31                        | 48,000         |
| Total                               | <u>61,076.83</u>                | <u>657,431</u> |

The Lot is held under New Grant No. 7178 for a term of 50 years commencing from 12th September, 2002. The Government rent payable for the Lot is 3% of the rateable value per annum.

## Notes:

- (1) The registered owner of the property is Healthy Sun Limited, which is a wholly-owned subsidiary of the Group, held under New Grant No. 7178.
- (2) The property is subject to a building mortgage in favour of Bank of China (Hong Kong) Limited on its own behalf and as agent and trustee for the lenders for a loan facility of \$910,000,000 vide Memorial No. 1480282 dated 12th September, 2002. As advised by the Group, the loan facility was reduced to \$790,000,000 with effect from 20th February, 2004.
- (3) As advised by the Group, the total outstanding construction cost to complete the development of the property as at 31st October, 2004 was approximately \$451,446,000. In the course of our valuation, we have taken into account the said construction cost.
- (4) The property falls within an area zoned "Comprehensive Development Area (1)" under the Tsuen Wan Outline Zoning Plan No. S/TW/20 dated 17th September, 2004.

- (5) The “capital value when completed” of the development of the property is approximately \$2,177,000,000.
- (6) In the course of our valuation, we have assumed that approvals for the proposed development of the property have been obtained from all relevant authorities.
- (7) As advised by the Group, the property will be subject to profits tax in Hong Kong at the time of disposal at the amount of its open market value as at the date of valuation. The pre-sale of the property has been commenced but will not incur profit tax until the assignment of sale and the development are completed. The likelihood of any tax liability is remote until the development of the property has been completed and is disposed in the market on a completed development basis. For indicative purpose, the potential tax liability arising from the disposal of this property, in its existing state as at 31st October, 2004, is estimated to be \$24,153,000 but the precise tax implication will be subject to formal tax advice, prevailing rules and regulations at the time of disposal.

| Property  | Description and tenure  | Particulars of occupancy   | Capital value in existing state as at 31st October, 2004                      |
|---|---|--|---|
| 7 Lot No. 1861 in Demarcation District 100, Fan Kam Road, Ying Pun, Sheung Shui, New Territories, Hong Kong | The property comprises a parcel of land with a registered site area of approximately 35,879.97 sq.m. (386,212 sq.ft.) situated on the eastern side of Fan Kam Road near to a locality known as Ying Pun.  | The property is under construction and is scheduled to be completed in first half of 2005. | \$287,000,000<br><br>(100% interest attributable to the Group: \$287,000,000) |
| Lot No. 1861 in Demarcation District 100 (the "Lot")  | The property is proposed to be developed into a private residential estate comprising 78 blocks of 3-storey detached/semi-detached houses/townhouses, and 167 car parking spaces together with club house and other ancillary facilities. Upon completion, the property will have gross floor areas as follows: |  |   |
|   |   | <b>Approximate<br/>Gross Floor Area</b>  |   |
|   |   | <i>sq.m.</i> <i>sq.ft.</i>   |   |
|   | House   | 14,293.57  | 153,856   |
|   | Club house and ancillary facilities   | 332.87   | 3,583   |
|   | <b>Total</b>  | <u>14,626.44</u>   | <u>157,439</u>  |
|   | The Lot is held under a New Grant No. 13150 for a term commencing from 14th February, 1997 and expiring on 30th June, 2047. The Government rent payable for the Lot is 3% of the rateable value for the time being of the Lot per annum.  |  |   |

*Notes:*

- (1) The registered owner of the property is Billion Universe Limited, which is a wholly-owned subsidiary of the Group, vide Memorial No. 515282 dated 1st August, 2001.
- (2) The property is subject to a building mortgage in favour of Industrial and Commercial Bank of China (Asia) Limited on its own behalf and as agent and trustee for the lenders for a loan facility of \$200,000,000 and all other moneys vide Memorial No. 565848 dated 7th July, 2004.
- (3) As advised by the Group, the total outstanding construction cost to complete the development of the property as at 31st October, 2004 was approximately \$115,910,000. In the course of our valuation, we have taken into account the said construction cost.
- (4) The property falls within an area zoned "Residential (Group C) 3" under the Kwu Tung South Outline Zoning Plan No. S/NE-KTS/9 dated 11th June, 2004.
- (5) The "capital value when completed" of the development of the property is approximately \$497,000,000.
- (6) In the course of our valuation, we have assumed that approvals for the proposed development of the property have been obtained from all relevant authorities.
- (7) As advised by the Group, the property will be subject to profits tax in Hong Kong at the time of disposal at the amount of its open market value as at the date of valuation. The likelihood of any tax liability is remote until the development of the property has been completed and is disposed in the market on a completed development basis. For indicative purpose, the potential tax liability arising from the disposal of this property, in its existing state as at 31st October, 2004, is estimated to be \$11,926,000 but the precise tax implication will be subject to formal tax advice, prevailing rules and regulations at the time of disposal.



## Group IV – Property interests held for investment in the PRC

| Property  | Description and tenure   | Particulars of occupancy  | Capital value in existing state as at 31st October, 2004                           |
|---|--|---|--|
| 8 Level 50 of Main Tower of Shun Hing Square, Jiefang Road, Luohu District, Shenzhen, Guangdong Province, the PRC | <p>The property comprises the whole of Level 50 of Main Tower of Shun Hing Square which is a commercial/residential complex comprising one 68-storey office building and one 33-storey office/apartment building and was completed in 1996.</p> <p>The total gross floor area of the property is approximately 2,160.82 sq.m. (23,259 sq.ft.).</p> <p>The land use rights of the property have been granted for a term of 50 years commencing from 2nd January, 1995 to 1st January, 2045 for commercial/financial uses.</p> | <p>The property is fully leased to third parties under various tenancies for terms of five years with the latest expiry date on 15th September, 2007 yielding a total monthly rent of approximately RMB231,200 exclusive of management fee.</p> | <p>\$30,700,000</p> <p>(100% interest attributable to the Group: \$30,700,000)</p> |

*Notes:*

- (1) Pursuant to fourteen Certificates for Real Estate Ownership Shen Fang Di Zi Nos. 4225816 to 4225823 and 4225825 to 4225830 all registered on 22nd May, 1997 and issued by the People's Government of Shenzhen, the ownership of the property is vested in Huge Million Limited.
- (2) As advised by the Group, Huge Million Limited is a wholly-owned subsidiary of the Group.
- (3) The opinion of the PRC legal adviser states that:
  - a) Pursuant to the Certificates for Real Estate Ownership as stated in note (1) above, the ownership and the respectively land use rights of the property are lawfully held by Huge Million Limited.
  - b) Pursuant to the Mortgage date 7th March, 2003, Huge Million Limited has mortgaged the property to the Bank of China (Hong Kong) Limited, Shenzhen Branch, Luohu-Sub Branch (the "mortgagee") for a loan amount of \$17,000,000 and is registered vide Shen Fang Yu Zi No. 20320462.
  - c) Huge Million Limited is entitled to sell, transfer, mortgage, lease or otherwise dispose of the property during the term of the land use rights from 2nd January, 1995 to 1st January, 2045 subject to the obtaining the relevant consent from the mortgagee.
  - d) Huge Million Limited is in possession of a proper legal title to the property and is entitled to transfer the property with residual term of its land use rights at no extra land premium or other payment payable to the PRC Government but subject to approval obtained from the mortgagee.
  - e) The property, whether as a whole or on a strata-titled basis, may be disposed of freely to both local and overseas purchasers.
- (4) It is advised by the Group that disposal of the property at the amount of its open market value as at 31st October, 2004 as shown above will not give rise to any potential tax liability as the disposal will result in a loss given that the book value of the property is higher than the open market value of the property as at 31st October, 2004.

| Property                    | Description and tenure   | Particulars of occupancy | Capital value in existing state as at 31st October, 2004 |  |       |        |                         |        |         |                |       |        |                        |       |        |                             |       |        |              |               |                |   |  |
|-----------------------------|--|--------------------------|--|--|-------|--------|-------------------------|--------|---------|----------------|-------|--------|------------------------|-------|--------|-----------------------------|-------|--------|--------------|---------------|----------------|---|--|
| 9                           | <p>Unsold portions of Peregrine Plaza, No. 1325 Huaihai Zhong Road and No. 1 Baoqing Road, Xuhui District, Shanghai, the PRC</p> <p>Peregrine Plaza is a 21-storey (Levels 13 and 14 omitted) commercial/office complex with two levels of basement completed in 1997.</p> <p>The property comprises various unsold portions of Peregrine Plaza and details of the gross floor areas are as follows:</p> <table border="1"> <thead> <tr> <th rowspan="2">Use</th> <th colspan="2">Approximate Gross Floor Area</th> </tr> <tr> <th>sq.m.</th> <th>sq.ft.</th> </tr> </thead> <tbody> <tr> <td>Office (Levels 6 to 23)</td> <td>15,017</td> <td>161,643</td> </tr> <tr> <td>Retail (B 1/F)</td> <td>1,438</td> <td>15,479</td> </tr> <tr> <td>Retail (Levels 1 to 5)</td> <td>5,823</td> <td>62,679</td> </tr> <tr> <td>Basement car park (70 nos.)</td> <td>2,221</td> <td>23,907</td> </tr> <tr> <td><b>Total</b></td> <td><b>24,499</b></td> <td><b>263,708</b></td> </tr> </tbody> </table> | Use                      | Approximate Gross Floor Area                             |  | sq.m. | sq.ft. | Office (Levels 6 to 23) | 15,017 | 161,643 | Retail (B 1/F) | 1,438 | 15,479 | Retail (Levels 1 to 5) | 5,823 | 62,679 | Basement car park (70 nos.) | 2,221 | 23,907 | <b>Total</b> | <b>24,499</b> | <b>263,708</b> | <p>With the exception of a total gross floor area of 337.92 sq.m. (3,637 sq.ft.) for office and 194.04 sq.m. (2,089 sq.ft.) for retail which are vacant, the property is let under various tenancies yielding a total monthly rent of approximately USD266,800 exclusive of management fee.</p> <p>The car parking spaces are let on monthly basis at average monthly income of approximately USD7,200.</p> | <p>\$393,000,000</p> <p>(100% interest attributable to the Group: \$393,000,000)</p> |
| Use                         | Approximate Gross Floor Area   |                          |  |  |       |        |                         |        |         |                |       |        |                        |       |        |                             |       |        |              |               |                |   |  |
|                             | sq.m.  | sq.ft.                   |  |  |       |        |                         |        |         |                |       |        |                        |       |        |                             |       |        |              |               |                |   |  |
| Office (Levels 6 to 23)     | 15,017   | 161,643                  |  |  |       |        |                         |        |         |                |       |        |                        |       |        |                             |       |        |              |               |                |   |  |
| Retail (B 1/F)              | 1,438  | 15,479                   |  |  |       |        |                         |        |         |                |       |        |                        |       |        |                             |       |        |              |               |                |   |  |
| Retail (Levels 1 to 5)      | 5,823  | 62,679                   |  |  |       |        |                         |        |         |                |       |        |                        |       |        |                             |       |        |              |               |                |   |  |
| Basement car park (70 nos.) | 2,221  | 23,907                   |  |  |       |        |                         |        |         |                |       |        |                        |       |        |                             |       |        |              |               |                |   |  |
| <b>Total</b>                | <b>24,499</b>  | <b>263,708</b>           |  |  |       |        |                         |        |         |                |       |        |                        |       |        |                             |       |        |              |               |                |   |  |
|                             | <p>The land use rights of the property have been granted for a term of 50 years commencing from 29th September, 1992 to 28th September, 2042.</p>  |                          |  |  |       |        |                         |        |         |                |       |        |                        |       |        |                             |       |        |              |               |                |   |  |

## Notes:

- (1) Pursuant to the Certificate for Real Estate Ownership Hu Fang Di Xu Zi (2003) No. 023416 dated 30th June, 2003 issued by Shanghai Housing and Land Resources Administration Bureau (referred to as the "Bureau"), the land use rights of the basement to 22nd floors of the property, comprising a total gross floor area of 24,106.64 sq.m., have been granted to Shanghai Golden Sea Building Ltd. (a wholly foreign-owned enterprise) for a land use term of 50 years from 29th September, 1992 to 28th September, 2042 for commercial and office composite uses.
- (2) Pursuant to the Certificate for Real Estate Ownership Hu Fang Di Xu Zi (2003) No. 023402 dated 30th June, 2003 issued by the Bureau, the land use rights of the 23rd floor of the property, comprising total gross floor area of 705.72 sq.m., have been granted to Shanghai Golden Sea Building Ltd. for a land use term of 50 years from 29th September, 1992 to 28th September, 2042 for commercial and office composite uses.
- (3) Pursuant to the Business Licence (Registration No. Qi Du Hu Zong Zi No. 015304 (Shi Ju) dated 12th April, 2001 issued by the State Administration for Industry and Commerce, Shanghai Golden Sea Building Ltd. was established with a registered capital of USD10,500,000 for an operational period of 50 years from 14th January, 1993 to 13th January, 2043 and the scope of its business is to carry out real estate development, property management, investment consultancy services, food and beverage outlets, bar, beauty salon, gymnasium and car park.
- (4) As advised by the Group, unit no. 3 on 9th floor and unit no. 7 on 10th of the property, having a total gross floor area of 313 sq.m., have been sold in 1997. In the course of our valuation, we have excluded the said units from the property we valued.

- (5) As confirmed by the Group, Shanghai Golden Sea Building Ltd. is a wholly-owned subsidiary of the Group.
- (6) The opinion of the PRC legal adviser states that:
- a) Pursuant to the Certificates for Real Estate Ownership as stated in notes 1 and 2 above, the ownership and the respectively land use rights of the property are lawfully held by Shanghai Golden Building Limited.
  - b) Shanghai Golden Building Limited is entitled to sell, transfer, mortgage, lease or otherwise dispose of the property during the term of the land use rights from 29th September, 1992 to 28th September, 2042.
  - c) Shanghai Golden Sea Building Ltd. is in possession of a proper legal title to the property and is entitled to transfer the property with residual term of its land use rights at no extra land premium or other payment payable to the government.
  - d) The property, whether as a whole or on a strata-titled basis, may be disposed of freely to both local and overseas purchasers.
- (7) As advised by the Group, the property will be subject to profits tax in the PRC at the time of disposal at the amount of its open market value as at the date of valuation. The precise tax implication will be subject to formal tax advice, prevailing rules and regulations at the time of disposal. However, the likelihood of the tax liability being crystalized is remote as the property is held by the Group for investment purpose. For indicative purpose, the potential tax liability arising from the disposal of this property is estimated to be \$5,329,000.

## Group V – Property interests held under future development in Hong Kong

| Property   | Description and tenure  | Particulars of occupancy | Capital value in existing state as at 31st October, 2004 |  |  |                             |                       |           |        |       |                   |            |           |       |                   |                  |                                      |   |
|--|---|--------------------------|--|--|--|-----------------------------|-----------------------|-----------|--------|-------|-------------------|------------|-----------|-------|-------------------|------------------|--------------------------------------|---|
| 10 10 lots in Demarcation District 77 and 183 lots in Demarcation District 79, Fanling, New Territories, Hong Kong | <p>The property comprises 10 agricultural lots located in Ping Che and 182 agricultural lots and one house lot in Wo Keng Shan.</p> <p>The registered site area of the property is approximately as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th colspan="2" style="text-align: center;">Approximate</th> </tr> <tr> <th></th> <th style="text-align: center;">Gross Floor<br/><i>sq.m.</i></th> <th style="text-align: center;">Area<br/><i>sq.ft.</i></th> </tr> </thead> <tbody> <tr> <td>House lot</td> <td style="text-align: center;">242.85</td> <td style="text-align: center;">2,614</td> </tr> <tr> <td>Agricultural lots</td> <td style="text-align: center;">172,899.11</td> <td style="text-align: center;">1,861,086</td> </tr> <tr> <td>Total</td> <td style="text-align: center;"><u>173,141.96</u></td> <td style="text-align: center;"><u>1,863,700</u></td> </tr> </tbody> </table> |                          | Approximate  |  |  | Gross Floor<br><i>sq.m.</i> | Area<br><i>sq.ft.</i> | House lot | 242.85 | 2,614 | Agricultural lots | 172,899.11 | 1,861,086 | Total | <u>173,141.96</u> | <u>1,863,700</u> | The property is mostly lying fallow. | <p>\$93,000,000</p> <p>(50% interest attributable to the Group: \$46,500,000)</p> |
|  | Approximate   |                          |  |  |  |                             |                       |           |        |       |                   |            |           |       |                   |                  |                                      |   |
|  | Gross Floor<br><i>sq.m.</i>   | Area<br><i>sq.ft.</i>    |  |  |  |                             |                       |           |        |       |                   |            |           |       |                   |                  |                                      |   |
| House lot  | 242.85  | 2,614                    |  |  |  |                             |                       |           |        |       |                   |            |           |       |                   |                  |                                      |   |
| Agricultural lots  | 172,899.11  | 1,861,086                |  |  |  |                             |                       |           |        |       |                   |            |           |       |                   |                  |                                      |   |
| Total  | <u>173,141.96</u>   | <u>1,863,700</u>         |  |  |  |                             |                       |           |        |       |                   |            |           |       |                   |                  |                                      |   |
|  | <p>The property is held under two Government Leases both for a term of 75 years from 1st July, 1898 renewable for a further term of 24 years less the last three days thereof which is statutorily extended to 30th June, 2047.</p>   |                          |  |  |  |                             |                       |           |        |       |                   |            |           |       |                   |                  |                                      |   |

## Notes:

- (1) The property comprises Lot Nos. 108S.A, 384, 387 385S.B, 116, 117, 110S.A, 112, 113 and 114 in Demarcation District 77 and Lot Nos. 1315, 1316, 1326, 1327, 1360, 1484, 1485, 1510, 1521, 1538, 1541, 1547, 1550, 1563, 1568, 1569, 1578, 1515, 1517, 1595, 1605, 1539, 1545, 1553R.P., 1536, 1543, 1546, 1509, 1313, 1537, 1548, 1540, 1361, 1441, 1480, 1551, 1534, 1566, 1567, 1362, 1479, 1542, 1478, 1481, 1482, 1194, 1352, 1442, 1448, 1198S.B, 1624, 1627, 1629, 1518S.A, 1193S.A, 1177, 1183, 1282R.P., 1245R.P., 1331, 1337, 1423, 1427, 1476, 1571, 1623, 1630, 1633, 1334, 1432, 1437, 1631, 1329, 1350, 1323, 1444, 1495, 1504, 1592, 1395, 1458, 1469, 1577, 1590, 16S.A (Wo Keng Shan House Lot), 1107, 1384, 1516, 1182, 1195, 1197, 1346, 1349, 1366, 1513, 1519, 1522, 1524, 1580, 1583, 1584, 1586, 1596, 1604, 1608, 1610, 1585, 1201, 1159S.A, 1187S.A, 1189, 1410, 1411, 1376, 1379, 1383, 1436S.A, 1408S.B, 1430S.B, 1401, 1122, 1287, 1289, 1294, 1295, 1324, 1467, 1497, 1574, 1642R.P., 1291, 1456, 1465, 1487, 1488, 1494, 1505, 1507, 1506, 1398, 1299, 1454, 1468, 1333, 1400, 1426, 1498, 1500, 1554R.P., 1625, 1621, 1622, 1525, 1533, 1535, 1097S.A, S.S.1, 1292S.A, 1306, 1403S.A, 1429, 1075, 1144, 1520, 1518B, 1322, 1609, 1612, 1614, 1616, 1617, 1619, 1328, 1404, 1297, 1474, 1466, 1447, 1449, 1451, 1405, 1159S.B.R.P., 1159S.B, S.S.1 and 1591 in Demarcation District 79.
- (2) As advised by the Group that the registered owner of Lot Nos. 1282RP, 1245RP, 1331, 1337, 1423, 1427, 1476, 1571, 1623, 1630, 1633, 1334, 1432, 1437, 1631, 1329, 1350, 1323, 1444, 1495, 1504, 1592, 1395, 1458, 1469, 1577, 1590, 16S.A (Wo Keng Shan House Lot), 1107, 1384, 1516, 1609, 1612, 1614, 1616, 1617, 1619 and 1328 in Demarcation District 79 is Global Sound Limited and it is holding the lots in its capacity as a trustee for Hero Star (HK) Limited under various Declarations of Trust whereas the registered owner of the remaining lots is Hero Star (HK) Limited.
- (3) As confirmed by the Group, the Group has a 50% attributable interest of Hero Star (HK) Limited.
- (4) The property falls within an area zoned "Agriculture" and "Village Type Development" under the Wo Keng Shan Outline Zoning Plan No. S/NE-WKS/4 dated 26th March, 2004.
- (5) It is advised by the Group that disposal of the property at the amount of its open market value as at 31st October, 2004 as shown above will not give rise to any potential tax liability as the disposal will result in a loss given that the book value of the property is higher than the open market value of the property as at 31st October, 2004.

| Property   | Description and tenure   | Particulars of occupancy             | Capital value in existing state as at 31st October, 2004                             |
|--|--|--------------------------------------|--|
| 11 47 lots in Demarcation District 79, Fanling, New Territories, Hong Kong | <p>The property comprises 47 agricultural lots located in Wo Keng Shan.</p> <p>The total registered site area of the property is approximately 43,589.74 sq.m. (469,200 sq.ft.).</p> <p>The property is held under a Government Lease for a term of 75 years from 1st July, 1898 renewable for a further term of 24 years less the last three days thereof which is statutorily extended to 30th June, 2047.</p> | The property is mostly lying fallow. | <p>\$16,500,000</p> <p>(87.50% interest attributable to the Group: \$14,437,500)</p> |

*Notes:*

- (1) The property comprises Lot Nos. 1408S.C, 1430S.C, 1406, 1408S.A, 1430S.A, 1134, 1148, 1152, 1511S.A, 1367, 1371, 1373, 1375, 1377, 1102S.B, 1136S.D, 1102S.C, 1113S.C, 1108S.A, 1136S.A, 1275R.P., 1181, 1190, 1511S.B, 1512, 1514, 1606, 1252R.P., 1445, 1309R.P., 1355R.P., 1356R.P., 1357, 1532, 1171, 1178, 1597, 1598, 1599, 1601, 1603, 1615, 1618, 1620, 1413, 1386 and 1388 in Demarcation District 79.
- (2) The registered owner of Lot Nos. 1134, 1148, 1152, 1171, 1178, 1357, 1367, 1371, 1373, 1375, 1377, 1386, 1388, 1406, 1413, 1445, 1532, 1597, 1598, 1599, 1601, 1603, 1615, 1618, 1620, 1252R.P., 1275R.P., 1309R.P., 1355R.P., 1356R.P., 1408S.A, 1408S.C, 1430S.A, 1430S.C and 1511S.A in Demarcation District 79 is Poly-Style Limited.
- (3) As no title proof document has been provided by the Group for the Lot Nos. 1181, 1190, 1512, 1514, 1606, 1102S.B, 1102S.C, 1108S.A, 1113S.C, 1136S.A, 1136S.D and 1511S.B, having a total site area approximately 9,550.35 sq.m. (102,800 sq.ft.), in Demarcation District 79, in the course of our valuation, we have excluded the said lots from the property we valued.
- (4) The property falls within an area zoned "Agriculture" and "Green Belt" under the Wo Keng Shan Outline Zoning Plan No. S/NE-WKS/4 dated 26th March, 2004.
- (5) As confirmed by the Group, the Group has a 87.5% attributable interest of Poly-Style Limited.
- (6) It is advised by the Group that disposal of the property at the amount of its open market value as at 31st October, 2004 as shown above will not give rise to any potential tax liability as the disposal will result in a loss given that the book value of the property is higher than the open market value of the property as at 31st October, 2004.

## Group VI – Interest held under contractual arrangement in Hong Kong

| Property  | Description and tenure   | Particulars of occupancy   | Capital value in existing state as at 31st October, 2004 |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
|---|--|--|--|--|--|-------|--------|----------------|--|--|----------|--------|---------|------------|-------|--------|----------------|-------|--------|----------------------|---|---|-----------------|--|--|----------|--------|---------|------------|-------|--------|---------------------|---|---|-------|---------------|----------------|--|--|
| 12 Development Project at Tai Yuen Street/ Wan Chai Road, Wan Chai, Hong Kong | The development comprises eight plots of land of irregular shape unevenly bounded by Queen's Road East, Wanchai Road, Cross Street and Tai Yuen Street in the Wan Chai District.   | Phase I of the development is under construction and is planned to be completed in early 2006.       | \$1,426,000,000  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
| Inland Lot No. 8953 (the "Lot")   | In accordance with the information provided, the site is regranted with a total site area of approximately 6,780.70 sq.m. (72,987 sq.ft.) and the proposed development will be developed into two phases.<br><br>Phase I of the development will comprise 3 blocks of high-rise residential buildings together with a total of 156 car parking spaces whereas Phase II of the development will comprise a block of high-rise residential building together with a total of 35 car parking spaces.<br><br>The total gross floor area of the proposed development is approximately 62,310 sq.m. (670,705 sq.ft.). Details of the gross floor areas are as follows :  | Phase II is currently occupied by the "Wanchai Market" and is planned to be completed in early 2008. | (25% interest attributable to the Group: \$356,500,000)  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
|   | <table border="1"> <thead> <tr> <th>Floor</th> <th colspan="2">Gross Floor Area</th> </tr> <tr> <td></td> <th>sq.m.</th> <th>sq.ft.</th> </tr> </thead> <tbody> <tr> <td colspan="3"><i>Phase I</i></td> </tr> <tr> <td>Domestic</td> <td>38,700</td> <td>416,567</td> </tr> <tr> <td>Commercial</td> <td>2,453</td> <td>26,404</td> </tr> <tr> <td>GIC facilities</td> <td>6,318</td> <td>68,007</td> </tr> <tr> <td>Car Parks (156 nos.)</td> <td>–</td> <td>–</td> </tr> <tr> <td colspan="3"><i>Phase II</i></td> </tr> <tr> <td>Domestic</td> <td>13,839</td> <td>148,963</td> </tr> <tr> <td>Commercial</td> <td>1,000</td> <td>10,764</td> </tr> <tr> <td>Car Parks (35 nos.)</td> <td>–</td> <td>–</td> </tr> <tr> <td>Total</td> <td><u>62,310</u></td> <td><u>670,705</u></td> </tr> </tbody> </table> | Floor  | Gross Floor Area   |  |  | sq.m. | sq.ft. | <i>Phase I</i> |  |  | Domestic | 38,700 | 416,567 | Commercial | 2,453 | 26,404 | GIC facilities | 6,318 | 68,007 | Car Parks (156 nos.) | – | – | <i>Phase II</i> |  |  | Domestic | 13,839 | 148,963 | Commercial | 1,000 | 10,764 | Car Parks (35 nos.) | – | – | Total | <u>62,310</u> | <u>670,705</u> |  |  |
| Floor   | Gross Floor Area   |  |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
|   | sq.m.  | sq.ft.   |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
| <i>Phase I</i>  |  |  |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
| Domestic  | 38,700   | 416,567  |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
| Commercial  | 2,453  | 26,404   |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
| GIC facilities  | 6,318  | 68,007   |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
| Car Parks (156 nos.)  | –  | –  |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
| <i>Phase II</i>   |  |  |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
| Domestic  | 13,839   | 148,963  |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
| Commercial  | 1,000  | 10,764   |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
| Car Parks (35 nos.)   | –  | –  |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
| Total   | <u>62,310</u>  | <u>670,705</u>   |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |
|   | The Lot is held under Conditions of Exchange No. 12640 for a term of 50 years commencing from 9th June, 2003.  |  |  |  |  |       |        |                |  |  |          |        |         |            |       |        |                |       |        |                      |   |   |                 |  |  |          |        |         |            |       |        |                     |   |   |       |               |                |  |  |

*Notes:*

- (1) The registered owner of the property is Opalman Limited held under Conditions of Exchange No. 12640.
- (2) By virtue of a development agreement dated 8th March, 1996, entered into between Land Development Corporation (currently named as Urban Renewal Authority (the “URA”)), Opalman Limited, which is a wholly owned subsidiary of the URA, Dollar Union Limited (“Dollar Union”) and various guarantors, Dollar Union has contractual development interest in the development as developer to re-develop the subject site with the URA. In addition, Dollar Union is granted the exclusive right and obligation to design, develop, construct and market the development. Dollar Union is responsible for all costs and expenditure incurred in respect of the development which are reimbursed from the sales/sub-sale/disposal (“Sales Proceeds”) of the development and the balance (if any) of the Sales Proceeds shall be shared between Dollar Union and Opalman Limited.
- (3) As confirmed by the Group, the Group has an attributable interest of 25% in Dollar Union.
- (4) As advised by the Group, the total outstanding construction cost to complete the development as at 31st October, 2004 was approximately \$692,000,000. In the course of our valuation, we have taken into account the said construction cost.
- (5) The subject site falls within an area zoned “Comprehensive Development Area” under the Land Development Corporation Development Scheme Plan for Wan Chai Road/Tai Yuen Street No. S/H5/LDC1/2 dated 24th September, 1996.
- (6) The “capital value when completed” of the development is approximately \$3,100,000,000.
- (7) Our valuation has been made based on the latest development proposal provided to us by the Group and subject to the assumption that all relevant approvals in respect of the development have been obtained and all the land premium, if any, having been fully paid.
- (8) It is advised by the Group that disposal of the property at the amount of its open market value as at 31st October, 2004 as shown above will not give rise to any potential tax liability when considering the tax loss not yet recognised which is sufficient to offset the profit resulting from the sale of the property in its existing state as at 31st October, 2004.

## 1. COMFORT LETTER FROM DELOITTE TOUCHE TOHMATSU

Following are the texts of the letter received by the KSH Directors from Deloitte Touche Tohmatsu in connection with the preparation of the proforma financial information as set out under the section headed “Proforma statement of adjusted unaudited consolidated net tangible assets” contained in Appendix I to this document:

**Deloitte.**  
**德勤**

13th December, 2004

The Board of Directors  
The Kwong Sang Hong International Limited  
26/F, MassMutual Tower  
38 Gloucester Road  
Wanchai  
Hong Kong

Dear Sirs,

We report on the proforma statement of adjusted unaudited consolidated net tangible assets (the “Proforma Statement”) of The Kwong Sang Hong International Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “KSH Group”) set out in Appendix I of the circular dated 13th December, 2004 in connection with the proposed privatisation of the Company by Power Jade Limited (trading as Power Jade Capital Limited) by way of a scheme of arrangement under Section 99 of the Companies Act at the cancellation price of HK\$1.25 per scheme share, which has been prepared, for illustrative purpose only, to provide information about how the transaction might have affected the financial information as at 31st May, 2004.

### **Responsibilities**

It is the responsibility solely of the directors of the Company to prepare the Proforma Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Proforma Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Proforma Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

### **Basis of opinion**

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on proforma financial information pursuant to the listing rules” issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Proforma Statement with the directors of the Company.



Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and accordingly we do not express any such assurance on the Proforma Statement.

The Proforma Statement has been prepared on the basis set out in Appendix I of the circular for illustrative purpose only and, because of its nature, it may not give an indicative financial position of the KSH Group as at 31st May, 2004 or at any future date.

### **Opinion**

In our opinion:

- a) the Proforma Statement has been properly compiled on the basis stated;
- b) such basis is consistent with the accounting policies of the KSH Group; and
- c) the adjustments are appropriate for the purposes of the Proforma Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,  
**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

## 1. RESPONSIBILITY STATEMENT

The information in this document relating to the KSH Group has been supplied by the KSH Directors. The issue of this document has been approved by the KSH Directors, who jointly and severally 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, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement in this document misleading.

The information in this document relating to Power Jade has been supplied by the directors of Power Jade. The issue of this document has been approved by the directors of Power Jade, who jointly and severally 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, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement in this document misleading.

## 2. DISCLOSURE OF INTERESTS

For the purpose of this paragraph, the “Offer Period” means the period from 4th November, 2004 (being the date of the Announcement) to the Latest Practicable Date, both dates inclusive, and the “Disclosure Period” means the period beginning from six months prior to 4th November, 2004 and ending on the Latest Practicable Date, both dates inclusive, and “interested” and “interest(s)” have the same meanings as ascribed thereto in Part XV of the SFO. For the purposes of Note 1 to paragraph 4 of Schedule I of the Takeovers Code, holdings of the KSH Shares are the relevant shareholdings in KSH and holdings of shares in Power Jade, Solar Chain and Chinese Estates are the relevant shareholdings in Power Jade, Solar Chain and Chinese Estates respectively.

### (a) Holdings, interests and dealings in the KSH Shares

- (i) As at the Latest Practicable Date, the interests of the KSH Directors in the KSH Shares were as follows:

| Name of KSH Director      | Capacity<br>and nature<br>of interest | Number of<br>KSH Shares | Percentage of<br>total issued<br>share capital |
|---------------------------|---------------------------------------|-------------------------|--|
| Mr. Joseph Lau, Luen-hung | Corporate Interest                    | 586,672,047             | 61.12%   |

*Note:* The interest stated above represents long position. Mr. Joseph Lau, Luen-hung, by virtue of his 62.81% deemed interest in the issued share capital of Chinese Estates, is deemed to be interested in 513,746,047 KSH Shares held by Power Jade and 72,926,000 KSH Shares held by Good System under the provisions of the SFO. Mr. Joseph Lau, Luen-hung is also a director of each of Power Jade and Chinese Estates.

Save as disclosed above, none of the KSH Directors nor their associate had any interest or short position in the shares, underlying shares or debentures of KSH or any of its associated corporations (within the meaning of Part XV of the SFO) as at the Latest Practicable Date and none of the KSH Directors had dealt for value in any KSH Shares during the Disclosure Period. The KSH Director holding deemed interest in the KSH Shares as disclosed above is not entitled to vote in the Court Meeting.

- (ii) As at the Latest Practicable Date, Power Jade, Solar Chain, Chinese Estates and their respective concert parties were interested in the KSH Shares in the following manners:

| Name                                   | Number of KSH Shares | Note | Percentage of total issued share capital |
|--|----------------------|------|--|
| Power Jade                             | 513,746,047          | 1    | 53.52%                                   |
| Gold Castle Ltd.                       | 513,746,047          | 1&2  | 53.52%                                   |
| Good System                            | 72,926,000           | 1    | 7.60%                                    |
| Chinese Estates                        | 586,672,047          | 3&6  | 61.12%                                   |
| Global King Ltd.                       | 586,672,047          | 4&6  | 61.12%                                   |
| Credit Suisse Trust Limited as trustee | 586,672,047          | 4&6  | 61.12%                                   |
| Solar Chain                            | 513,746,047          | 1&2  | 53.52%                                   |
| Ms. Anita Shum                         | 513,746,047          | 1&5  | 53.52%                                   |

*Notes:*

- These KSH Shares form part of the same parcel of the KSH Shares referred to in paragraph (i) above relating to the interest of Mr. Joseph Lau, Luen-hung in KSH.
- Power Jade is owned as to 50% by Gold Castle Ltd. (trading as Gold Castle Capital Ltd.) and as to 50% by Solar Chain. Gold Castle Ltd. and Solar Chain were deemed to be interested in the same parcel of 513,746,047 KSH Shares held by Power Jade.
- Chinese Estates, which is a publicly listed company in Hong Kong, is the holding company of Gold Castle Ltd. and Good System. Pursuant to the SFO, Chinese Estates was deemed to be interested in the 513,746,047 KSH Shares and 72,926,000 KSH Shares stated against Gold Castle Ltd. and Good System respectively.
- Credit Suisse Trust Limited as trustee is holding the entire issued share capital of Global King Ltd. and units in a unit trust of which Global King Ltd. is the trustee. Global King Ltd. as trustee of the unit trust is entitled to exercise more than one-third of the voting power at general meetings of Chinese Estates. Global King Ltd. as trustee and Credit Suisse Trust Limited as trustee were deemed to be interested in the same parcel of 586,672,047 KSH Shares stated against Chinese Estates.
- Solar Chain is wholly owned by Ms. Anita Shum who was deemed to be interested in the same parcel of 513,746,047 KSH Shares stated against Solar Chain. Ms. Anita Shum is also a director of each of Power Jade and Solar Chain.
- The 586,672,047 KSH Shares are the same parcel of KSH Shares referred to in paragraph (i) above relating to the interest of Mr. Joseph Lau, Luen-hung in KSH.

Save as disclosed in sub-paragraph (i) and (ii) under this paragraph 2(a), none of (a) Power Jade, Solar Chain, Chinese Estates or their respective concert parties; and (b) the directors of Power Jade, Solar Chain and Chinese Estates, had any interest in the KSH Shares as at the Latest Practicable Date.

- (iii) None of (a) Power Jade, Solar Chain, Chinese Estates or their respective concert parties; and (b) the directors of Power Jade, Solar Chain and Chinese Estates had dealt for value in any KSH Shares during the Disclosure Period.
- (iv) As at the Latest Practicable Date, none of the subsidiaries of KSH, pension fund of any member of the KSH Group, or any advisers to KSH (as specified in class (2) of the definition of associate under the Takeovers Code) owned or controlled any KSH Shares or had dealt for value in any KSH Shares during the Disclosure Period.
- (v) As at the Latest Practicable Date, no interest in any KSH Shares was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with KSH and no such fund manager had dealt for value in any KSH Shares during the Disclosure Period.

**(b) Holdings, interests and dealings in the shares of Power Jade, Solar Chain and Chinese Estates**

- (i) As at the Latest Practicable Date, KSH did not hold any shares of Power Jade, Solar Chain and Chinese Estates and had not dealt for value in any shares of any one of them during the Disclosure Period.
- (ii) As at the Latest Practicable Date, the following KSH Director was interested in the shares of Power Jade:

| <b>Name of<br/>KSH Director</b> | <b>Capacity and<br/>nature of<br/>interest</b> | <b>Number of<br/>shares of<br/>Power Jade</b> | <b>Percentage of<br/>total issued<br/>share capital</b> |
|---------------------------------|--|---|---|
| Mr. Joseph Lau, Luen-hung       | Corporate Interest                             | 10  | 50%   |

*Note:* Mr. Joseph Lau, Luen-hung, by virtue of his 62.81% deemed interest in the issued share capital of Chinese Estates, is deemed to be interested in 10 shares of Power Jade held by Gold Castle Ltd., a wholly-owned subsidiary of Chinese Estates.

- (iii) As at the Latest Practicable Date, the following KSH Directors were interested in the shares of Chinese Estates:

| <b>Name of<br/>KSH Director</b> | <b>Capacity and<br/>nature of<br/>interest</b> | <b>Number of<br/>shares of<br/>Chinese Estates</b> | <b>Percentage of<br/>total issued<br/>share capital</b> |
|---------------------------------|--|--|---|
| Mr. Joseph Lau, Luen-hung       | Other Interests                                | 275,143,456  | (1)   |
|                                 | Other Interests                                | 1,000,000,000                                      | (2)   |
|                                 |  | 1,275,143,456                                      | 62.81%  |
| Mr. Thomas Lau, Luen-hung       | Other Interests                                | 199,207,187  | (3) 9.81%   |

*Notes:*

- (1) These shares were indirectly owned by a discretionary trust, of which Mr. Joseph Lau, Luen-hung was the founder and certain of his family members were eligible beneficiaries.

- (2) These shares were held by a unit trust and Mr. Joseph Lau, Luen-hung was one of the unit holders. The said shares were indirectly owned by a discretionary trust, of which Mr. Joseph Lau, Luen-hung was the founder and certain of his family members were eligible beneficiaries.
- (3) These shares were indirectly owned by a discretionary trust, of which Mr. Thomas Lau, Luen-hung and certain of his family members were eligible beneficiaries.
- (iv) During the Disclosure Period, Mr. Joseph Lau, Luen-hung, a KSH Director, had dealt for value in the shares of Chinese Estates:

| Date                               | Number of shares<br>of Chinese Estates | Highest price<br>per share<br>(HK\$) | Lowest price<br>per share<br>(HK\$) |
|------------------------------------|--|--------------------------------------|-------------------------------------|
| <i>Acquisition</i>                 |  |                                      |                                     |
| 17th May, 2004                     | 8,686,000                              | 2.700                                | 2.700                               |
| 6th July, 2004 –<br>9th July, 2004 | 1,732,000                              | 4.500                                | 4.275                               |
| 21st July, 2004                    | 764,000                                | 4.775                                | 4.750                               |
| 10th September, 2004               | 1,776,000                              | 4.925                                | 4.900                               |
| 13th September, 2004               | 1,000,000                              | 4.950                                | 4.950                               |
| 14th September, 2004               | 988,000                                | 4.950                                | 4.950                               |
| 15th September, 2004               | 610,000                                | 4.925                                | 4.925                               |
| 16th September, 2004               | 428,000                                | 4.950                                | 4.900                               |
| 17th September, 2004               | 308,000                                | 4.925                                | 4.925                               |
|                                    | <u>16,292,000</u>                      |                                      |                                     |
| <i>Disposal</i>                    |  |                                      |                                     |
| 12th November, 2004                | <u>8,000,000</u>                       | 4.700                                | 4.700                               |

*Note:* The shares of Chinese Estates involved in the above acquisition/disposal were indirectly owned by a discretionary trust, of which Mr. Joseph Lau, Luen-hung was the founder and certain of his family members were eligible beneficiaries.

Save as disclosed in sub-paragraph (ii), (iii) and (iv) under this paragraph 2(b), none of the KSH Directors had any interest in the shares of Power Jade, Solar Chain and Chinese Estates as at the Latest Practicable Date and had dealt for value in any shares of Power Jade, Solar Chain and Chinese Estates during the Disclosure Period.

**(c) Other interests and arrangements**

- (i) As at the Latest Practicable Date, no person had irrevocably committed themselves to accept or reject the Scheme.
- (ii) As at the Latest Practicable Date, no agreement, arrangement or understanding or intention to enter into any agreement, arrangement or understanding between any person and Power Jade, Solar Chain, Chinese Estates or any person acting in concert with any one of them for the transfer of the beneficial interests in the Scheme Shares under the Proposal.

- (iii) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and Power Jade, Solar Chain, Chinese Estates or any person acting in concert with any one of them or any person who is an associate of Power Jade, Solar Chain and Chinese Estates by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code.
- (iv) As at the Latest Practicable Date, no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and KSH or any person who is an associate of KSH by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code.
- (v) As at the Latest Practicable Date, none of the KSH Directors had entered into, or was proposing to enter into, any service contract with KSH or any of its subsidiaries or associated companies which has more than twelve months to run or which was entered into or amended within six months before the date of the Announcement.
- (vi) As at the Latest Practicable Date, no benefit (other than statutory compensation) is to be given to any KSH Director as compensation for loss of office in any member of the KSH Group or otherwise in connection with the Proposal.
- (vii) As at the Latest Practicable Date, no agreement or arrangement exists between any KSH Director and any other person, which is conditional on or dependent upon the outcome of the Scheme or otherwise connected with the Proposal.
- (viii) During the two years prior to the date of the Announcement, Chinese Estates Group has entered into the following material contracts in which the KSH Directors have material personal interests:
  - (aa) two leases dated 14th August, 1996 and 10th November, 1997 respectively entered into between Viewwide Properties Limited, an indirect wholly-owned subsidiary of Chinese Estates, as the landlord, and Public Might Limited, in which two KSH Directors, namely, Messrs. Thomas Lau, Luen-hung and Joseph Lau, Luen-hung, have indirect shareholding interests since 9th May, 2001, as the tenant, in respect of certain commercial shops expiring on 31st October 2005 with a monthly guaranteed minimum gross revenue of approximately HK\$3.3 million;
  - (bb) financial assistance provided by Chinese Estates Group to Dollar Union Limited (“Dollar Union”) which is owned as to 75% by the Chinese Estates Group and 25% by the KSH Group as follows:
    - (a) the aggregate advances made by Chinese Estates Group to Dollar Union amounted to approximately HK\$1,115 million and HK\$1,008 million as at 31st December, 2002 and 31st December, 2003 respectively as disclosed in the respective annual report of Chinese Estates in 2002 and 2003 which were unsecured, interest free and had no fixed repayment date;
    - (b) a several guarantee dated 29th April, 1998 executed by Chinese Estates in favour of Land Development Corporation and Opalman Limited in respect of 75% of performance and fulfillment of obligations of Dollar Union under the development agreement dated 8th March, 1996 (as supplemented by a variation agreement and a side letter dated 10th April, 2002 and 28th August, 2002 respectively);
    - (c) (i) a several guarantee; (ii) a funding undertaking and (iii) a completion guarantee executed by Chinese Estates in favour of BOCI Capital Limited as agent of Bank of China (Hong Kong) Limited and Hang Seng Bank Limited on 6th June, 2003 in respect of 75% of liabilities and obligation of Dollar Union under a loan facility of up to HK\$1,150 million granted to Dollar Union;

- (cc) an agreement dated 27th August, 2004 entered into between Paul Y. Holdings Company Limited, a wholly-owned subsidiary of Chinese Estates, and Colour Jade Limited (a company wholly owned by a discretionary trust set up by Mr. Joseph Lau, Luen-hung, a KSH Director, for the benefit of certain of his family members) in relation to the disposal of the entire issued share capital of each of Project King Ltd., Sino Harbour Limited, Great Kings Investments Ltd. and Glory Ocean Limited and all sums due by the said four companies and their respective subsidiaries for an aggregate consideration of approximately HK\$549 million (subject to adjustment);
- (dd) an agreement dated 27th August, 2004 entered into between Chinese Estates and London Queen Limited (a company wholly owned by a discretionary trust set up by Mr. Joseph Lau, Luen-hung, a KSH Director, for the benefit of certain of his family members) in relation to the disposal of the entire issued share capital of Jade Wall Limited (“Jade Wall”) and the loan due by Jade Wall to Chase Master Company Limited, an indirect wholly-owned subsidiary of Chinese Estates, for a consideration of approximately HK\$93 million; and
- (ee) service contracts entered into between Chinese Estates, Limited, a wholly-owned subsidiary of Chinese Estates, and each of Mr. Thomas Lau, Luen-hung and Mr. Joseph Lau, Luen-hung, both being the KSH Directors, with effect from 1st January, 2004 for a term of one year renewable automatically for one year unless notice of non-renewal is served by either them or Chinese Estates, Limited at least six months prior to the end of the relevant term.

Save as disclosed above, no material contract has been entered into by Power Jade, Solar Chain or Chinese Estates in which any KSH Director has a material personal interest.

- (ix) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) or intention to enter into any agreement, arrangement or understanding (including any compensation arrangement) between Power Jade, Solar Chain, Chinese Estates or any person acting in concert with any one of them and any of the directors, recent directors, shareholders or recent shareholders of KSH having any connection with or dependence upon the Proposal.

### 3. MARKET PRICES

- (a) The KSH Shares are traded on the Stock Exchange. The table below shows the closing prices of the KSH Shares on the Stock Exchange on (i) the last trading day of each of the six calendar months immediately preceding the date of the Announcement; (ii) 1st November, 2004, being the last trading day prior to the suspension of trading in the KSH Shares pending the issue of the Announcement; and (iii) the Latest Practicable Date:

| <b>Date</b>             | <b>Closing price</b><br><i>HK\$</i> |
|-------------------------|-------------------------------------|
| 31st May, 2004          | 0.68                                |
| 30th June, 2004         | 0.64                                |
| 30th July, 2004         | 0.69                                |
| 31st August, 2004       | 0.75                                |
| 30th September, 2004    | 0.88                                |
| 29th October, 2004      | 1.21                                |
| 1st November, 2004      | 1.19                                |
| Latest Practicable Date | 1.21                                |

- (b) The highest and lowest closing prices per KSH Share recorded on the Stock Exchange on the trading days during the period between 4th May, 2004 (being the date six months prior to the date of the Announcement) and the Latest Practicable Date were HK\$1.21 on 29th October, 2004 and HK\$0.56 on 17th and 18th May, 2004 respectively.
- (c) The table below sets out the highest and lowest closing prices per KSH Share on the Stock Exchange on the trading days, for each month during the twelve-month period immediately preceding the date of the Announcement.

| <b>Month</b> | <b>Highest<br/>closing price<br/>HK\$</b> | <b>Lowest<br/>closing price<br/>HK\$</b> |
|--------------|---|--|
| <b>2003</b>  |   |  |
| November     | 0.445                                     | 0.400                                    |
| December     | 0.415                                     | 0.390                                    |
| <b>2004</b>  |   |  |
| January      | 0.640                                     | 0.405                                    |
| February     | 0.650                                     | 0.540                                    |
| March        | 0.750                                     | 0.620                                    |
| April        | 0.720                                     | 0.630                                    |
| May          | 0.680                                     | 0.560                                    |
| June         | 0.680                                     | 0.570                                    |
| July         | 0.690                                     | 0.620                                    |
| August       | 0.750                                     | 0.680                                    |
| September    | 0.880                                     | 0.760                                    |
| October      | 1.210                                     | 0.910                                    |

#### 4. MATERIAL CONTRACTS

During the two years prior to the date of the Announcement, neither KSH or any of its subsidiaries has entered into any contracts which are or may be material other than in the ordinary course of business carried out or intended to be carried out by any member of the KSH Group.

#### 5. LITIGATION

On 17th May, 1996, Hubei Provincial High Court of the PRC issued a judgment (the "1996 Judgment") against KSH in favour of KSH's joint venture partner in the PRC in relation to the former joint development of Shuohu Court in Wuhan. KSH disputed the 1996 Judgment and filed an appeal (the "1996 Appeal") with the Supreme People's Court of the PRC (the "PRC Supreme Court"). The PRC Supreme Court delivered its judgment (the "1998 Judgment") on 28th May, 1998 confirming the 1996 Judgment with a reduction in the amount of judgment sum. KSH further appealed on the 1998 Judgment (the "1998 Appeal") and the PRC Supreme Court has conducted the appeal hearing but has not delivered its judgment. The joint venture partner issued a Writ of Summons in the High Court of Hong Kong under H.C. Action No. 14325 of 1998 pursuant to the 1998 Judgment in the PRC Supreme Court claiming for the sum of HK\$2,901,629.38 and RMB8,382,749.40 together with interest on the aforesaid sums and costs of the action. The joint venture partner had made a payment into the High Court of Hong Kong as security for costs in the sum of HK\$1.2 million. No further step has been taken by the joint venture partner in these Hong Kong proceedings since early 2003. In light of the above, a total provision of HK\$68.2 million was made by the KSH Group, of which HK\$51.4 million was made against the investment cost paid by the KSH Group and the remaining HK\$16.8 million was provided against damages, legal costs and interest charged.



Save as aforesaid, as at the Latest Practicable Date, neither KSH nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the KSH Directors to be pending or threatened by or against the KSH Group.

## 6. QUALIFICATIONS OF EXPERTS

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

| Name                     | Qualification   |
|--------------------------|---|
| MasterLink               | a licensed corporation to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO                                   |
| Tai Fook                 | a licensed corporation to carry on type 6 (advising on corporate finance) regulated activity under the SFO  |
| Somerley                 | a corporation deemed licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO |
| Deloitte Touche Tohmatsu | certified public accountants  |
| Norton Appraisals        | professional property valuers   |

## 7. CONSENTS

Each of MasterLink, Tai Fook, Somerley, Deloitte Touche Tohmatsu and Norton Appraisals has given and has not withdrawn their respective written consents to the issue of this document with the inclusion herein of their respective opinions or letters and/or references to their names, in the form and context in which they respectively appears.

## 8. GENERAL

- (a) The registered office of KSH is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.
- (b) The branch share registrar and transfer office of KSH in Hong Kong is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The registered office of Power Jade is at Akara Bldg., 24 De Castro Street, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands. Its ultimate shareholders are Chinese Estates and Ms. Anita Shum and its directors are Mr. Joseph Lau, Luen-hung, Mr. Thomas Lau, Luen-hung, Ms. Anita Shum and Solar Chain.
- (d) The registered office of Solar Chain is at Creque Building, Main Street, P.O. Box 116, Road Town, Tortola, British Virgin Islands. Its sole director is Ms. Anita Shum.
- (e) The correspondence address of Ms. Anita Shum is at 31st Floor, New World Tower, 18 Queen's Road Central, Hong Kong.

- (f) The registered office of Chinese Estates is situated at Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda. Its directors are Mr. Thomas Lau, Luen-hung, Mr. Joseph Lau, Luen-hung, Ms. Amy Lau, Yuk-wai, Mr. Koon, Wing-ye, Mr. Cheng, Kwee and Mr. Chan, Kwok-wai.
- (g) The registered office of Tai Fook is at 25th Floor, New World Tower, 16-18 Queen's Road Central, Hong Kong.
- (h) The costs, charges and expenses of and incidental to the Scheme and the costs of carrying the same into effect will be borne by KSH and Power Jade, insofar as they relate to each of them, if the Scheme becomes effective. If the Scheme does not become effective, all expenses incurred by KSH in connection with the implementation of the Scheme will be borne by Power Jade.
- (i) Save as disclosed in the paragraph headed "Introduction" under the section headed "Letter from the KSH Board" of this document and the paragraph headed "Disclosure of interests" in this Appendix, the KSH Directors have no material interests in the Proposal as directors, shareholders or creditors of KSH or otherwise. All Scheme Shareholders are being treated the same under the Scheme, regardless of the size of their holding.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of Sidley Austin Brown & Wood, the legal advisers to KSH, at 39th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours on any weekday (public holidays excepted) until the Effective Date or the date on which the Scheme lapses or is withdrawn, whichever is earlier:

- (a) memorandum of association and bye-laws of KSH;
- (b) memorandum and articles of association of Power Jade;
- (c) the audited consolidated accounts of the KSH Group for the two years ended 30th November, 2002 and 2003 and the unaudited condensed consolidated financial statements of the KSH Group for the six months ended 31st May, 2004;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 12 of this document;
- (e) the letter from Somerley to the Independent Board Committee, the text of which is set out on pages 13 to 33 of this document;
- (f) the letter and summaries of valuations from Norton Appraisals, the text of which is set out in Appendix II to this document;
- (g) the proforma statement of adjusted unaudited consolidated net tangible assets of the KSH Group prepared by KSH, the text of which is set out in Appendix I to this document and the comfort letter from Deloitte Touche Tohmatsu, the text of which is set out in Appendix III to this document;
- (h) the full list of all dealings by the KSH Director in the shares of Chinese Estates as referred to in the paragraph headed "Disclosure of interests" in this Appendix; and
- (i) the letters of consent referred to in the paragraph headed "Consents" in this Appendix.

**SCHEME OF ARRANGEMENT**

**IN THE SUPREME COURT OF BERMUDA**

**CIVIL JURISDICTION**

**2004: NO. 387**

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**IN THE MATTER OF**

**THE KWONG SANG HONG INTERNATIONAL LIMITED**

**and**

**IN THE MATTER OF**

**SECTION 99 OF THE COMPANIES ACT 1981**

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**SCHEME OF ARRANGEMENT**

**between**

**THE KWONG SANG HONG INTERNATIONAL LIMITED**

**and**

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

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**PRELIMINARY**

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

|                    |  |
|--------------------|--|
| “Chinese Estates”  | CHINESE ESTATES HOLDINGS LIMITED, an exempted company incorporated in Bermuda with limited liability;  |
| “Companies Act”    | the Companies Act 1981 of Bermuda (as amended);  |
| “Company” or “KSH” | THE KWONG SANG HONG INTERNATIONAL LIMITED, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;                             |
| “Court Meeting”    | the meeting of the KSH Independent Shareholders convened at the direction of the Supreme Court to consider the proposal for the privatisation of the Company by Power Jade by way of the Scheme; |
| “Effective Date”   | the date (Bermuda time) on which this Scheme becomes effective in accordance with Clause 6 of this Scheme;   |

## SCHEME OF ARRANGEMENT

|                                |   |
|--------------------------------|---|
| “Good System”                  | Good System Investment Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Chinese Estates, and the holder of approximately 7.60% of the issued Shares as at the Latest Practicable Date;  |
| “KSH Independent Shareholders” | Shareholders other than Power Jade, Good System and any of their respective associates (as defined under the Listing Rules) and parties acting in concert with any of them for the purposes of the Takeovers Code;  |
| “HK\$”                         | Hong Kong dollar(s), the lawful currency of Hong Kong;  |
| “Hong Kong”                    | the Hong Kong Special Administrative Region of the People’s Republic of China;  |
| “Latest Practicable Date”      | 9th December, 2004, being the latest practicable date prior to the printing of the document containing this Scheme for the purpose of ascertaining certain information for inclusion herein;  |
| “Listing Rules”                | the Rules Governing the Listing of Securities on the Stock Exchange;  |
| “Power Jade”                   | Power Jade Limited (trading as Power Jade Capital Limited), a company incorporated in the British Virgin Islands with limited liability and owned as to 50% indirectly by Chinese Estates and as to 50% directly by Solar Chain. Power Jade was interested in approximately 53.52% of the issued Shares as at the Latest Practicable Date;        |
| “Record Date”                  | the last day (other than a Saturday) before the Effective Date on which banks are open for business in Hong Kong;   |
| “Register”                     | the register of members of the Company;   |
| “Scheme”                       | this scheme of arrangement between the Company and the holders of the Scheme Shares under section 99 of the Companies Act involving the cancellation and extinguishment of all the Scheme Shares in its present form or with or subject to any modification thereof or addition thereto or condition(s) approved or imposed by the Supreme Court; |
| “Scheme Share(s)”              | Share(s) held by the Scheme Shareholders as at 4:30 p.m. (Hong Kong time) on the Record Date;   |
| “Scheme Shareholder(s)”        | holder(s) of the Share(s) other than Power Jade;  |
| “Share(s)”                     | share(s) of par value of HK\$0.40 each in the capital of the Company;   |
| “Shareholder(s)”               | holder(s) of Share(s);  |

## SCHEME OF ARRANGEMENT

|                  |  |
|------------------|--|
| “Solar Chain”    | Solar Chain Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly and beneficially owned by Ms. Anita Shum; |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited;   |
| “Supreme Court”  | the Supreme Court of Bermuda; and  |
| “Takeovers Code” | the Code on Takeovers and Mergers issued by the Securities and Futures Commission of Hong Kong   |

- (B) The Company was incorporated on 24 April, 1990 in Bermuda under the Companies Act and, as of the Latest Practicable Date, had an authorised share capital of HK\$1,200,000,000 divided into 3,000,000,000 Shares of which 959,899,416 Shares have been issued and are fully paid or credited as fully paid. The issued Shares are listed on the Stock Exchange.
- (C) The primary purpose of this Scheme is that the Scheme Shareholders should receive cash, in consideration of the cancellation and extinguishment of the Scheme Shares, on the basis of HK\$1.25 in cash for every Scheme Share held by them, and that the Company should become a wholly owned subsidiary of Power Jade.
- (D) On the Latest Practicable Date, Power Jade and Good System beneficially owned an aggregate of 586,672,047 Shares fully paid as follows:

### **Shares owned by Power Jade and Good System**

|             |                    |
|-------------|--------------------|
| Power Jade  | 513,746,047 Shares |
| Good System | 72,926,000 Shares  |

- (E) Each of Power Jade and Good System has undertaken in relation to such Shares of which it is the beneficial owner, that such Shares (i) will remain so beneficially owned by it until the date on which the Scheme becomes effective, is withdrawn or lapses and (ii) will not be represented or voted at the Court Meeting.
- (F) Each of Power Jade and Good System has agreed to appear by counsel at the hearing of the petition to sanction this Scheme and to undertake to the Supreme Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme including, without limitation, Power Jade satisfying its payment obligations under Part II of this Scheme.

## **THE SCHEME**

### **PART I**

#### **CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES**

1. On the Effective Date:
  - (a) the issued share capital of the Company shall be reduced to HK\$205,498,418.80 divided into 513,746,047 Shares by cancelling and extinguishing all the Scheme Shares;
  - (b) subject to and forthwith upon such reduction of issued capital taking effect, the authorised share capital of the Company shall be reduced to HK\$1,021,538,652.40 comprising 2,553,846,631 Shares; and
  - (c) the Company shall apply the credit arising in its books of account as a result of the said reduction referred to in Clause 1 (a) above to a reserve account in its books of account.

# SCHEME OF ARRANGEMENT

## PART II

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

2. In consideration for the cancellation and extinguishment of all the Scheme Shares, Power Jade shall pay or procure that there shall be paid to the persons who are Scheme Shareholders (as appearing in the Register at 4:30 p.m. (Hong Kong time) on the Record Date) HK\$1.25 in cash for every Scheme Share held.
3.
  - (a) Not later than ten days after the Effective Date, Power Jade shall send or cause to be sent to the Scheme Shareholders (as appearing in the Register at 4:30 p.m. (Hong Kong time) on the Record Date) cheques in respect of the sums payable to such holders pursuant to Clause 2 of this Scheme.
  - (b) Unless indicated otherwise in writing to the branch share registrar of the Company in Hong Kong, namely, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, all such cheques shall be sent by post in pre-paid envelopes addressed to such Scheme Shareholders at their respective addresses as appearing in the Register at 4:30 p.m. (Hong Kong time) on the Record Date or, in the case of joint holders, at the address appearing on such register at such time of that one of the joint holders whose name stands first in the Register in respect of the relevant joint holding.
  - (c) Cheques shall be posted at the risk of addressees. The Company and Power Jade shall not be responsible for any loss or delay in transmission.
  - (d) Each such cheque shall be payable to the order of the person to whom in accordance with the provisions of Clause 3 (b) above the envelope containing the same is addressed and the encashment of any cheque shall be good discharge to Power Jade for the monies represented thereby.
  - (e) On or after the day being six calendar months after the posting of the cheques pursuant to Clause 3 (b) above, Power Jade shall have the right to cancel or countermand payment of any such cheques which have not then been cashed or have been returned uncashed and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies until the expiration of six years from the Effective Date and shall prior to such date make payments thereof of the sums payable pursuant to Clause 2 above to persons who satisfy the Company that they are respectively entitled thereto and the cheques referred to in paragraph (b) above of which they are payees have not been cashed. Any payments made by the Company hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to Clause 2 above, calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of interest, withholding or other tax or any other deduction required by law. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled or not so entitled, as the case may be, and such decision shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
  - (f) On the expiry of six years from the Effective Date, Power Jade shall be released from any further obligation to make any payments under this Scheme and the Company shall transfer to Power Jade the balance (if any) of the sums then standing to the credit of the deposit account referred to in Clause 3(e) above including accrued interest subject, if applicable, to the deduction of interest, withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.
  - (g) Clause 3 (f) above shall take effect subject to any prohibition or condition imposed by law.

## SCHEME OF ARRANGEMENT

4. As from the Effective Date, all certificates representing the Scheme Shares shall cease to have effect as documents of title and every holder thereof shall be bound on the request of the Company to deliver up to the Company the certificates for his or her then existing shareholdings in the Company.
5. This Scheme shall become effective upon a copy of the Order of the Supreme Court sanctioning this Scheme under section 99 of the Companies Act being duly registered by the Registrar of Companies in Bermuda.
6. Unless this Scheme shall have become effective as aforesaid on or before 31st March, 2005 or such later date as the Company and Power Jade may agree or as the Supreme Court may direct this Scheme shall lapse.
7. The Company and Power Jade may jointly consent for and on behalf of all concerned to any modification of, or addition to, this Scheme or to any condition which the Supreme Court may think fit to approve or impose.
8. The expenses and costs incurred by the Company in connection with the Scheme will be borne:
  - (a) by the Company and Power Jade, insofar as they relate to each of them, if the Scheme becomes effective; and
  - (b) by Power Jade, if the Scheme does not become effective.

Dated 13th December, 2004

# NOTICE OF COURT MEETING

IN THE SUPREME COURT OF BERMUDA

CIVIL JURISDICTION

2004: NO. 387

IN THE MATTER OF  
THE KWONG SANG HONG INTERNATIONAL LIMITED  
*(Incorporated in Bermuda with limited liability)*  
(Stock Code: 189)

AND IN THE MATTER OF SECTION 99 OF THE COMPANIES ACT 1981

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## NOTICE OF COURT MEETING OF THE HOLDERS OF SCHEME SHARES

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**NOTICE IS HEREBY GIVEN** that, by an Order dated 2nd December, 2004, made in the above matter, the Supreme Court of Bermuda (the “Court”) has directed a meeting to be convened of registered holders of shares of HK\$0.40 each in THE KWONG SANG HONG INTERNATIONAL LIMITED (the “Company”) other than Power Jade Limited (trading as Power Jade Capital Limited) and Good System Investment Limited (the “KSH Independent Shareholders”) for the purposes of considering and, if thought fit, approving (with or without modification), a Scheme of Arrangement (the “Scheme of Arrangement”) proposed to be made between the Company and the holders of the Scheme Shares (as defined in the Scheme of Arrangement) and that such meeting will be held at 10:00 a.m. on Wednesday, 5th January, 2005 at Concord Room 2-3, 8th Floor, Renaissance Harbour View Hotel, No. 1 Harbour Road, Wanchai, Hong Kong, at which place and time all KSH Independent Shareholders are requested to attend.

A copy of a printed composite document of which this notice forms part containing the Scheme of Arrangement and the Explanatory Statement required to be furnished pursuant to section 100 of the above-mentioned Act together with a pink Form of Proxy have been posted to every holder of the Scheme Shares having a registered address in the register of members of the Company. Additional copies of the said documents can be obtained by any person entitled to attend the said meeting during usual business hours on any day prior to the day appointed for the said meeting (other than a Saturday in Bermuda or a Saturday afternoon in Hong Kong, a Sunday or a statutory holiday in Bermuda or Hong Kong as the case may be):

- (i) at the registered office of the Company in Bermuda situate at Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda;
- (ii) at the office of the branch registrar of the Company in Hong Kong, namely Computershare Hong Kong Investor Services Limited situate at 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong; and
- (iii) at the Hong Kong office of the Company’s Bermuda attorneys, namely Appleby Spurling Hunter, situate at 5511, The Center, 99 Queen’s Road Central, Hong Kong;

and can also be seen on display at the principal place of business of the Company in Hong Kong at 26th Floor, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong.



## NOTICE OF COURT MEETING

The KSH Independent Shareholders may vote in person at the said meeting or they may appoint another person, whether a shareholder of the Company or not, as their proxy to attend and vote in their stead.

In the case of joint holders of the Scheme Shares, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s), and for this purpose, seniority will be determined by the order in which the names of the holders stand in the register of members of the Company in respect of the relevant joint holding.

It is requested that forms appointing proxies be lodged at the office of the branch registrar of the Company in Hong Kong as stated above not less than 48 hours before the time appointed for the said meeting and in default, the proxy will not be treated as valid. However, if not so lodged, such forms of proxy may be handed to the Chairman of the meeting at the said meeting.

By the said Order, the Court has appointed Mr. Lam, Kwong-wai, the secretary of the Company, or failing him, Mr. Wilson Cheng, Kam-biu, a director of the Company to act as Chairman of the said meeting and has directed the Chairman to report the result thereof to the Court.

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

Dated this 13th December, 2004.

**Appleby Spurling Hunter**  
Canon's Court, 22 Victoria Street  
Hamilton HM 12, Bermuda  
Attorneys for the Company

## NOTICE OF SPECIAL GENERAL MEETING



### THE KWONG SANG HONG INTERNATIONAL LIMITED

*(Incorporated in Bermuda with limited liability)*

**Stock Code: 189**

**NOTICE IS HEREBY GIVEN** that a Special General Meeting (the “Meeting”) of THE KWONG SANG HONG INTERNATIONAL LIMITED (the “Company”) will be held at 10:30 a.m. on Wednesday, 5th January, 2005 at Concord Room 2-3, 8th Floor, Renaissance Harbour View Hotel, No. 1 Harbour Road, Wanchai, Hong Kong (or so soon thereafter as the meeting of registered holders of shares of HK\$0.40 each in the Company other than Power Jade Limited (trading as Power Jade Capital Limited) and Good System Investment Limited convened by direction of the Supreme Court of Bermuda for the same day and place shall have been concluded (or concluded after any adjournment thereof)) for the purpose of considering and, if thought fit, passing the following resolution as a special resolution of the Company:

#### SPECIAL RESOLUTION

“**THAT**

- (a) the scheme of arrangement (the “Scheme”) dated 13th December, 2004 between the Company and the holders of the Scheme Shares (as defined in the Scheme) in the form of the print thereof which has been produced to this Meeting and for the purposes of identification initialled by the Chairman of the Meeting, subject to any modification or addition or condition as may be approved or imposed by the Supreme Court of Bermuda, be approved;
- (b) for the purpose of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
  - (i) the issued share capital of the Company of HK\$383,959,766.40 divided into 959,899,416 shares of HK\$0.40 each (“Shares”) be reduced to HK\$205,498,418.80 divided into 513,746,047 Shares by cancelling and extinguishing 446,153,369 Scheme Shares (as defined in the Scheme);
  - (ii) the authorised share capital of the Company of HK\$1,200,000,000.00 divided into 3,000,000,000 Shares, be reduced to HK\$1,021,538,652.40 divided into 2,553,846,631 Shares; and
  - (iii) the Company shall apply the credit arising in its books of account as a result of the reduction referred to in sub-paragraph (i) above to a reserve account in the books of account of the Company; and
- (c) the directors of the Company be authorised to do all other acts and things necessary or desirable in connection with the implementation of the Scheme, including the giving of consent to any modification of, or addition to, the Scheme, which the Supreme Court of Bermuda may see fit to impose.”

By Order of the Board  
**THE KWONG SANG HONG INTERNATIONAL LIMITED**  
**Lam, Kwong-wai**  
*Company Secretary*

Dated 13th December, 2004

## NOTICE OF SPECIAL GENERAL MEETING

*Principal place of business in Hong Kong:*

26th Floor, MassMutual Tower  
38 Gloucester Road  
Wanchai  
Hong Kong

*Notes:*

1. A shareholder entitled to attend and vote at the Meeting may appoint more than one proxy to attend and vote at the Meeting on his/her behalf. A proxy need not be a shareholder of the Company. Subject to the provisions of the bye-laws of the Company, on a show of hands, every shareholder shall have one vote only and in the case of a poll, every shareholder shall have one vote for every share held by him.
2. Shareholders must use the white form of proxy for the Meeting, a copy of which is enclosed herewith, for appointing a proxy and the appointment must be in writing. The form of proxy must be signed by the relevant shareholder or by a person duly authorised by the relevant shareholder in writing (a "power of attorney"). If a corporate shareholder appoints a person to attend the Meeting on its behalf, the relevant form of proxy must either be affixed with the company seal of the corporate shareholder or duly signed by its officer or attorney duly authorised by that corporate shareholder. To be valid, the white form of proxy for the Meeting, together with the power of attorney or other authority (if any) under which it is signed, must be deposited with the branch share registrar of the Company in Hong Kong, namely Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time fixed for the Meeting and in default the proxy shall not be treated as valid. Completion and return of the form of proxy will not preclude a shareholder from attending the Meeting and voting in person, if he/she so wishes. In the event that a shareholder attends the Meeting after having lodged the white form of proxy for the Meeting, it will be deemed to have been revoked.
3. Where there are joint holders of any shares of the Company, any one of such joint holders may vote at the Meeting, either personally or by proxy, in respect of such shares as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the holders so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
4. The register of members of the Company will be closed from Friday, 31st December, 2004 to Wednesday, 5th January, 2005 (both dates inclusive) during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, namely Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Thursday, 30th December, 2004.