

# OFFERING CIRCULAR



## CHINESE ESTATES HOLDINGS LIMITED

### **Chinese Estates Holdings Limited** *(incorporated in Bermuda with limited liability)*

#### **HK\$1,750,000,000 (which includes HK\$250,000,000 in principal amount of Optional Bonds (as defined below)) Zero Coupon Convertible Bonds due 2010**

(together with an additional HK\$500,000,000 in principal amount of Bonds which may be issued pursuant to an option described below, of which HK\$250,000,000 has been exercised by Deutsche Bank AG, Hong Kong Branch on 18 April 2005)

#### **Issue Price: 100 per cent.**

The Zero Coupon Convertible Bonds due 2010 in the aggregate principal amount of HK\$1,750,000,000 (the "Bonds") will be issued by Chinese Estates Holdings Limited (the "Company").

Each Bond will, at the option of the holder, be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 20 May 2005 up to and including 20 March 2010 into fully paid ordinary shares with a par value of HK\$0.10 each of the Company (the "Shares") at an initial conversion price of HK\$7.37 per Share. The conversion price is subject to adjustment in the circumstances described under "Terms and Conditions of the Bonds - Conversion". The volume weighted average price ("VWAP") of the Shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 9 March 2005 was HK\$6.4088 per Share.

The Company may, at its option, satisfy its obligation to deliver the Shares following the exercise of the right of conversion by a holder, in whole or in part, by paying to the relevant holder a cash amount in HK dollars equal to the product of (i) the number of Shares otherwise deliverable upon exercise of the conversion right which the Company has elected to satisfy in cash and (ii) the Average Closing Price (as defined in the Terms and Conditions of the Bonds (the "Terms and Conditions")) of the Shares for each day during the ten Trading Days (as defined in the Terms and Conditions) immediately following and excluding the Cash Settlement Notice Date (as defined in the Terms and Conditions).

Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 100 per cent. of their principal amount on 20 April 2010 (the "Maturity Date"). All or some of the Bonds may be redeemed at the option of the relevant holder on 20 April 2007 at 100 per cent. of their principal amount. On or at any time after 20 April 2007, the Company may redeem all but not some only of the Bonds, at any time prior to the Maturity Date, at the relevant Early Redemption Amount (as defined in the Terms and Conditions), provided, however, that no such redemption may be made unless either (i) the closing price of the Shares (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange (as defined in the Terms and Conditions)) for each of the 30 consecutive Trading Days (the last day of such 30-day period falls within five Trading Days prior to the date upon which notice of such redemption is given) was at least 130 per cent. of the Conversion Price in effect on each such Trading Day; or (ii) at least 90 per cent. in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled. The Bonds may also be redeemed at the option of the holders at the Early Redemption Amount upon the Shares ceasing to be listed on the Hong Kong Stock Exchange or the occurrence of a Change of Control (as defined in the Terms and Conditions). All, but not some only, of the Bonds may be redeemed at any time at their Early Redemption Amount in the event of certain changes relating to Bermuda or Hong Kong taxation. See "Terms and Conditions of the Bonds - Redemption, Purchase and Cancellation."

The Company has granted Deutsche Bank AG, Hong Kong Branch (the "Lead Manager") an option, which may be exercised by the Lead Manager in whole or in part and on one or more occasions, at any time up to and including the 30th day after 20 April 2005 (the "Closing Date"), to subscribe for up to an additional HK\$500,000,000 aggregate principal amount of Bonds (the "Optional Bonds"). Such option was exercised in part in the principal amount of HK\$250,000,000 by the Lead Manager on 18 April 2005. See "Subscription and Sale".

Application has been made to the Hong Kong Stock Exchange for listing of, and permission to deal in, the Bonds by way of selectively marketed securities (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) and such permission is expected to become effective on 21 April 2005. The Shares are listed on the Hong Kong Stock Exchange and application has been made to list the Shares to be issued upon conversion of the Bonds on the Hong Kong Stock Exchange.

Investing in the Bonds and the Shares involves certain risks. See "Risk Factors" beginning on page 7 for a discussion of certain factors to be considered in connection with an investment in the Bonds.

**The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States or to any US persons (as defined in Regulation S of the Securities Act).**

**For a description of these and certain further restrictions on offers and sales of the Bonds and the Shares to be issued upon conversion of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale".**

The Bonds will be represented by beneficial interests in a permanent global certificate (the "Global Certificate") in registered form, without interest coupons attached, which will be registered in the name of a nominee of, and shall be deposited on or about the Closing Date, with a common depository for, Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream").

Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

### **Sole Bookrunner and Lead Manager** **Deutsche Bank**

Offering Circular dated 18 April 2005

This Offering Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company and the Bonds. The Company, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Company and the Company's subsidiaries and associated companies (collectively, the "Group"), and the issue of the Bonds and the Shares, which is material in the context of the issue and offering of the Bonds; (ii) the statements contained in it relating to the Company and the Group are in every material respect true and accurate and not misleading; (iii) the opinions and intentions expressed in this document with regard to the Company and the Group are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to the Company, the Group, the Bonds or the Shares the omission of which would, in the context of the issue and offering of the Bonds, make any statement in this Offering Circular misleading in any material respect, and (v) all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements. In addition, the Company accepts full responsibility for the accuracy of the information contained in this Offering Circular.

This Offering Circular has been prepared by the Company solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and the Lead Manager to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the Shares deliverable upon conversion of the Bonds or the distribution of this document in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the Shares deliverable on conversion or redemption of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, United Kingdom, Japan, Singapore and Hong Kong, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see "Subscription and Sale".

No person has been or is authorised to give any information or to make any representation concerning the Company, the Group, the Bonds or the Shares other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, the Lead Manager, the Trustee or the Agents. Neither the delivery of this document nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Company, the Group or any of them since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company, the Lead Manager, the Trustee or the Agents to subscribe for or purchase any of the Bonds or Shares and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful. This Offering Circular is not intended to invite offers to subscribe for or purchase Shares.

No representation or warranty, express or implied, is made or given by the Lead Manager, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Lead Manager, the Trustee or the Agents. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by either the Company, the Lead

Manager, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

**IN CONNECTION WITH THIS ISSUE, DEUTSCHE BANK AG, HONG KONG BRANCH (OR ANY PERSON ACTING FOR IT) MAY (TO THE EXTENT PERMITTED BY APPLICABLE LAWS) OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD. HOWEVER, THERE MAY BE NO OBLIGATION ON DEUTSCHE BANK AG, HONG KONG BRANCH (OR ANY PERSON ACTING FOR IT) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME, AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.**

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

In making an investment decision, investors must rely on their own examination of the Company, the Group and the terms of the offering, including the merits and risks involved. See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Lead Manager or any person affiliated with the Lead Manager in connection with its investigation of the accuracy of such information or its investment decision.

The Company has prepared audited consolidated financial statements as of and for the three years ended 31 December 2004, 2003 and 2002. These financial statements were prepared in conformity with HKFRS, which differ in certain material respects from IFRS. See "Summary of Certain Differences Between HKFRS and IFRS".

Unless otherwise specified or the context requires, references herein to "Hong Kong dollars," "HK dollars," "HK\$" and "HK cents" are to the lawful currency of Hong Kong, references herein to "US dollars" or "US\$" are to the lawful currency of the United States of America, references herein to "Renminbi" or "RMB" are to the lawful currency of the People's Republic of China (the "PRC"), references to "HKFRS" are to Hong Kong Financial Reporting Standards and references to "IFRS" are to International Financial Reporting Standards. For further information relating to exchange rates, see "Exchange Rates".

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

## **INCORPORATION OF FINANCIAL INFORMATION**

The audited consolidated financial statements of the Company which are contained in the Annual Reports of the Company for the two years ended 31 December 2003 and 2002, respectively, the Interim Report of the Group for the six months ended 30 June 2004 and the audited consolidated results of the Group for the year ended 31 December 2004 as announced on 11 April 2005 are incorporated by reference in this Offering Circular. Copies of the accounts are available and may be (i) obtained free of charge at the specified office of the Company at 26<sup>th</sup> Floor, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong or (ii) downloaded free of charge from the Company's website on the internet at [www.chineseestates.com](http://www.chineseestates.com).

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## SUMMARY

*The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to investors and terms defined elsewhere in this Offering Circular shall have the same meanings when used in this summary. Prospective investors should therefore read this Offering Circular in its entirety.*

### **The Group**

Chinese Estates Holdings Limited is a public listed company incorporated in Bermuda on 5 June 1989 as an exempted company with limited liability and its Shares are listed on the Hong Kong Stock Exchange (stock code: 127). The Company's principal activity is investment holding and its subsidiaries are principally engaged in property investment and management, property development, brokerage, securities investment and money lending. As at 9 March 2005, the market capitalisation of the Company, based on the VWAP of the Shares of HK\$6.4088 per Share, was approximately HK\$13 billion.

The Group holds interests in property development projects in Hong Kong and the PRC and has a rental property portfolio comprising properties located in Hong Kong and the PRC.

As at the date of this Offering Circular, the Company had an authorised share capital of HK\$500 million consisting of 5 billion ordinary shares of HK\$0.10 each and an issued and fully paid up share capital of approximately HK\$203 million consisting of 2,030,214,000 ordinary shares of HK\$0.10 each.

As at the date of this Offering Circular, the aggregate deemed interests of Mr. Joseph Lau, Luen-hung and Mr. Thomas Lau, Luen-hung are approximately 72.62 per cent.. No other shareholder holds an interest of 10 per cent. or more in the issued share capital of the Company.

### **Strategy**

The Group will continue to seek to capture opportunities to acquire premier investment properties and to replenish its land bank. The Group will also seek to further enhance the value of its properties through continuous redevelopment and commercialization programs. At the same time, the Group will focus on producing mid to high-end development projects and to identify lucrative business opportunities in the Greater China region, aiming at bringing long-term value to its shareholders.

<b>SUMMARY FINANCIAL INFORMATION</b>
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The following tables set forth the summary consolidated financial information of the Company as at and for the periods indicated.

The summary audited consolidated financial information as at and for the years ended 31 December 2004, 2003 and 2002 set forth below are derived from the Company's audited consolidated financial information (which have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants) and should be read in conjunction with the published audited consolidated financial statements of the Company for the years ended 31 December 2004, 2003 and 2002 and the notes thereto.

The Company's consolidated financial statements are prepared and presented in accordance with HKFRS. HKFRS differs in certain respects from IFRS. For a discussion of the differences between HKFRS and IFRS, see "Summary of Certain Differences Between HKFRS and IFRS".

### Selected Financial Information

	<u>Years ended 31 December</u>		
	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000	<u>2002</u> HK\$'000 (as restated)
Turnover	5,257,357	2,531,532	729,280
Cost of sales	(4,297,871)	(1,777,530)	(97,438)
Gross profit	959,486	754,002	631,842
Other operating income	149,491	49,960	39,305
Administrative expenses	(119,091)	(188,670)	(217,271)
Investment income (loss)	425,815	586,641	(195,880)
Other operating expenses	(14,881)	(28,971)	(43,931)
Gain (loss) on disposal of investment properties	10,631	(11,679)	(21,862)
Gain (loss) on disposals of property and other fixed assets	11,923	16,276	(1,806)
Impairment loss reversed (recognised) in respect of properties under development	187,000	46,991	(1,391,267)
Impairment loss recognised in respect of property interests held for future development	(71,118)	-	-
Profit (loss) from operations	1,539,256	1,224,550	(1,200,870)
Finance costs	(55,703)	(190,090)	(318,343)
Other income (losses), net	15,615	119,728	(176,973)
Share of result of a jointly controlled entity	(768)	-	-
Share of results of associates	214,883	44,594	(26,821)
Profit (loss) before taxation	1,713,283	1,198,782	(1,723,007)
Taxation	(49,255)	(45,712)	(15,503)
Profit (loss) after taxation	1,664,028	1,153,070	(1,738,510)
Minority interests	(39,327)	775	260,095
Profit (loss) attributable to shareholders	1,624,701	1,153,845	(1,478,415)
Dividends	426,058	216,583	-
Basic earnings (loss) per share	78.4 cents	52.1 cents	(62.4) cents

## THE OFFERING

Phrases used in this summary and not otherwise defined shall have the meanings given to them in "terms and conditions of the bonds."

<b>Issuer</b>	Chinese Estates Holdings Limited
<b>Issue</b>	HK\$1,750,000,000 (which includes HK\$250,000,000 in the principal amount of Optional Bonds) aggregate principal amount of Zero Coupon Convertible Bonds due 2010, convertible into fully-paid ordinary shares with par value of HK\$0.10 each of the Company.
<b>Optional Bonds</b>	The Lead Manager has been granted an option by the Company to purchase at any time, in whole or in part on one or more occasions, up to and including the 30th day after the Closing Date, up to an additional HK\$500,000,000 aggregate principal amount of Bonds. The option was exercised in part in the principal amount of HK\$250,000,000 by the Lead Manager on 18 April 2005.
<b>Issue Price</b>	100 per cent.
<b>Form and Denomination</b>	The Bonds will be issued in registered form in the denomination of HK\$10,000 each.
<b>Interest</b>	The Bonds will not bear any interest.
<b>Closing Date</b>	20 April 2005
<b>Maturity Date</b>	20 April 2010
<b>Negative Pledge</b>	The Company undertakes that, so long as any of the Bonds remains outstanding or any amount is due under or in respect of any Bond or otherwise under the Trust Deed, it will not, and will procure that none of its Material Subsidiaries (as defined in the Terms and Conditions) will, create or permit to subsist or arise any Encumbrance upon the whole or any part of their respective present or future assets or revenues to secure any Relevant Indebtedness (as defined in the Terms and Conditions) of the Company or any other subsidiary or associate of the Company unless the outstanding Bonds are forthwith secured by the same Encumbrance or, at the option of the Company, by such other security as the Bondholders by Extraordinary Resolution may approve.
<b>Conversion Period</b>	On or after 20 May 2005 up to and including the close of business (at the place where the certificate evidencing such Bond is deposited for conversion) on 20 March 2010 or, if the Bonds shall have been called for redemption before 20 April 2010, then up



## THE OFFERING

to the close of business (at the place aforesaid) on a date no later than seven business days prior to the date fixed for redemption thereof.

### **Conversion Price**

HK\$7.37 per Share. The Conversion Price will be subject to adjustment for, among other things, subdivision or consolidation of Shares, bonus issues, rights issues, distributions and other dilutive events. If all the Bonds (including the Optional Bonds) were converted at the initial conversion price, approximately 271.37 million Shares would be issuable on conversion.

### **Conversion Price Reset**

If the Average Market Price (as defined in the Terms and Conditions) for the period of 20 consecutive Trading Days immediately prior to the Reset Date (i.e. 20 April 2006) is less than the Conversion Price on the Reset Date (taking into account any adjustments required under the Terms and Conditions which may have occurred prior to the Reset Date), the Conversion Price will be adjusted on a one-time basis on the Reset Date so that the Average Market Price will become the adjusted Conversion Price with effect from the Reset Date provided that, among other things, any such adjustment to the Conversion Price shall be limited such that the adjusted Conversion Price in no event shall be less than 85 per cent. of the Conversion Price prevailing on the Reset Date and that the Conversion Price shall not be reduced below the then par value of the Shares unless under the applicable law then in effect, the Bonds could be converted at such reduced Conversion Price into legally issued, fully-paid and non-assessable Shares.

### **Cash Settlement Option**

The Company may, at its option, satisfy its obligation to deliver the Shares following the exercise of the right of conversion by a holder, in whole or in part, by paying to the relevant holder a cash amount in HK dollars equal to the product of (i) the number of Shares otherwise deliverable upon exercise of the conversion right which the Company has elected to satisfy in cash and (ii) the Average Closing Price of the Shares for each day during the ten Trading Days immediately following and excluding the Cash Settlement Notice Date.

### **Final Redemption**

Unless previously redeemed, converted or purchased and cancelled in the circumstances referred to in the Terms and Conditions, the Bonds will be redeemed on 20 April 2010 at 100 per cent. of their principal amount

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### **Redemption at the Option of the Company**

On or at any time after 20 April 2007 and prior to the Maturity Date, the Company may redeem all, but not some only, of the Bonds at the Early Redemption Amount if (i) the closing price of the Shares (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) for each of the 30 consecutive Trading Days (the last day of such 30-Trading Day period falls within five Trading Days prior to the date upon which notice of such redemption is given) was at least 130 per cent. of the Conversion Price in effect on each such Trading Day; or (ii) at least 90 per cent. in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.

### **Tax Redemption**

The Company may redeem all, but not some only, of the Bonds at the Early Redemption Amount in the event of certain changes in Bermuda or Hong Kong taxation laws or regulations.

### **Redemption at the Option of the Bondholders**

On 20 April 2007, the holder of each Bond will have the right at such holder's option, to require the Company to redeem all or some only of the Bonds at 100 per cent. of their principal amount.

### **Redemption upon Delisting or Change of Control**

A Bondholder shall have the right, at such Bondholder's option, to require the Company to redeem all or some only of such Bondholder's Bonds at the Early Redemption Amount upon (i) the Shares ceasing to be listed or admitted to trading on the Hong Kong Stock Exchange; or (ii) the occurrence of a Change of Control (as defined in the Terms and Conditions) with respect to the Company.

### **Clearing Systems**

The Bonds will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Closing Date with a common depository for, Euroclear and Clearstream. Beneficial interests in the Global Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream. Except as described herein, certificates for Bonds will not be issued in exchange for beneficial interests in the Global Certificate.

### **Governing Law**

English law

### **Trustee**

DB Trustees (Hong Kong) Limited

## THE OFFERING

### **Listing**

Application has been made to list the Bonds as selectively marketed securities on the Hong Kong Stock Exchange.

The Shares are currently listed on the Hong Kong Stock Exchange, and application has been made to list the Shares to be issued upon conversion of the Bonds on the Hong Kong Stock Exchange.

## RISK FACTORS

Prior to making any investment decision, prospective investors should consider carefully all of the information in this Offering Circular, including the risks and uncertainties described below. The business, financial condition or results of operations of the Group could be materially adversely affected by any of these risks. Additional considerations and uncertainties not presently known to the Company, or which the Company currently deems immaterial, may also have an adverse effect on an investment in the Bonds.

### **Risks Relating to the Group**

#### ***The Group does not have a continuous history of profitability***

The Group experienced a loss of HK\$1,478.4 million for the year ended 31 December 2002, which the Group attributes to a provision of HK\$1,391.3 million for impairment loss recognised in respect of properties under development and a provision of HK\$156.4 million for development projects held through associates. Although the Group recorded a net profit of HK\$1,153.8 million for the year ended 31 December 2003 and a net profit of HK\$1,624.7 million for the year ended 31 December 2004, there can be no assurance that the Group will continue to be profitable or that the difficulties experienced by the Group in 2002 will not recur in the future.

#### ***The Group is dependent upon services of key management personnel***

The Group is dependent upon the collective services of all of the members of its senior management team. In particular, Mr. Thomas Lau, Luen-hung and Mr. Joseph Lau, Luen-hung have been fundamental to the development of the Group's business and achievements to date and have 27 years and 29 years of experience in corporate finance, manufacturing and property investment and development, respectively. The successful management of the Group's business is, to a significant extent, dependent on the continued services of Mr. Thomas Lau, Luen-hung and Mr. Joseph Lau, Luen-hung. The loss of the services of any such person or both of such persons could have an adverse effect on the Group's ability to effectively manage its business. See "Directors and Management".

#### ***The Group's indebtedness***

As at 31 December 2004, on a consolidated basis, the Group had approximately HK\$7,053 million of total bank and other borrowings consisting of the non-current portion of approximately HK\$4,770 million and the current portion of approximately HK\$2,283 million. As at the same date, the Group had approximately HK\$18,486 million in shareholders' funds. The gearing ratio (total bank and other borrowings to shareholders' funds) was approximately 38.2 per cent..

The Group's indebtedness may adversely affect the Group's future strategy and operations in a number of ways, including:

- the debt service requirements will reduce the funds available to the Group for other purposes;
- the Group's ability to obtain adequate financing for working capital and capital expenditures for its projects on terms which will enable such projects to achieve a reasonable return to the Group may be limited; and

## RISK FACTORS

- the Group's level of leverage may hinder its ability to withstand competitive pressures or adjust rapidly, if at all, to changing market conditions.

There can be no assurance that the Group's indebtedness and such restrictions will not materially and adversely affect the Group's ability to finance its future operations or capital needs, successfully operate its business, engage in other business activities or pay dividends.

### ***The Group is subject to financial covenants***

As is usual in borrowing arrangements, the loan facilities and other borrowings entered into or guaranteed by the Company and its subsidiaries often contain financial ratio undertakings and restrictive financial covenants. Any failure to comply or obtain waivers from the relevant creditors may result in the acceleration of the repayment of the relevant indebtedness or all other indebtedness through cross-default clauses.

### ***The Group's business and future growth depends on availability of funding***

The development and maintenance of properties is capital intensive. Capital costs are funded by the Group from operating cash flow and financing. The availability of future borrowings and access to the capital markets for financing depends on prevailing market conditions and the acceptability of the financing terms offered. The Group cannot ensure that future financings will be available, or available on acceptable terms, or in an amount sufficient to fund its needs. If the Group fails to obtain sufficient funding it may be unable to implement its expansion plans, which may have a material adverse impact upon its business and financial condition.

### ***The Group may not be able to effectively manage its expansion***

The Group has expanded its operations in recent years and, in conjunction with the execution of its strategy, expects to continue to expand its operations in terms of geography, customers and capital investment. To manage its growth, the Group must continue to improve its managerial, technical, operational and other resources, and to implement an effective management information system. In order to fund the Group's ongoing operations and its future growth, the Group needs to have sufficient internal sources of liquidity or access to additional financing from external sources. Further, the Group will be required to manage relationships with a greater number of customers, suppliers, contractors, service providers, lenders and other third parties. There can be no assurance that the Group will not experience issues such as capacity and capital constraints, construction delays, difficulties in ramping up operations at new facilities or upgrading or expanding existing facilities and training an increasing number of personnel to manage and operate those facilities. In particular, failure of the Group to implement its expansion plans in a timely manner could adversely affect its ability to maintain, expand and diversify its revenue base and to maintain the profitability of the Group. There can be no assurance that such expansion plans will not adversely affect the Group's existing operations, which could have a material adverse effect on the Group's business, financial condition, results of operations and future prospects and could cause the price of the Bonds and the Shares to fall.

## RISK FACTORS

***A portion of the Group's turnover and gross profit is derived from listed securities investment, which exposes the Group to market fluctuations and volatility***

As at 31 December 2004, 73.0% of the Group's turnover and 7.8% of the Group's gross profit are derived from listed securities investment. The value of such investments and the ability of the Group to derive income from them may be adversely affected by a variety of factors, including adverse developments with respect to the companies in which it has investments, changes in financial markets or in interest or exchange rates and other changes in general market conditions.

***The Group has interests in several joint venture entities, which by their nature may expose the Group to special risks***

The Group has and expects to have interests in several joint venture entities in connection with its property developments and investments. Such joint ventures may involve special risks associated with the possibility that the joint venture partners may (i) have economic and business interests or goals that are inconsistent with those of the Group; (ii) take actions contrary to the instructions or requests of the Group or contrary to the Group's policies or objectives with respect to its property investment; (iii) be unable or unwilling to fulfil its or their obligations under the joint venture agreement; or (iv) experience financial difficulties. Any disputes with joint venture partners could have an adverse effect on the business and prospects of the Group.

***The Group has uninsured risks***

The Group has taken out only limited insurance cover for certain risks for certain properties developed or under development. The Group believes this to be in line with common practice in the property development industry. In addition, there are certain types of losses which are disproportionately expensive for the Group to fully insure against, or to insure at all, for instance, losses resulting from acts of terrorism. Therefore, there may be circumstances in which the Group will not be fully covered or compensated for losses, damages and liabilities which may in turn result in the interruption of its business and loss of turnover. These events could adversely affect the Group.

***The Company is primarily a holding company and payments with respect to the Bonds are structurally subordinated to liabilities and obligations of each of the Company's subsidiaries***

The Company is primarily a holding company and its ability to make payments in respect of the Bonds depends largely upon the receipt of dividends, distributions, interests or advances from its wholly or partly-owned subsidiaries and associated companies. The ability of the subsidiaries and associated companies of the Company to pay dividends and other amounts to the Company may be subject to their profitability and to applicable laws. Payments under the Bonds are structurally subordinated to all existing and future liabilities and obligations of each of the Company's subsidiaries and associated companies. Claims of creditors of such companies will have priority as to the assets of such companies over the Company and its creditors, including holders of the Bonds.

## RISK FACTORS

### Risks Relating to Property Business

***The Group's financial condition and results of operations are subject to risks relating to property ownership and development***

The Group currently has interests in a number of properties including development properties and investment properties in Hong Kong and the PRC. The Group's financial condition and results of operations are largely dependent on these properties. See "Description of the Group - Business." The property interests of the Group are subject to certain risks inherent generally in the ownership and operation of, investment in and development of properties. These risks include the cyclical nature of property markets, changes in general economic, business and credit conditions, the illiquidity of land and other real property, changes in governmental policies or regulations, building material shortages and increases in the costs of labour and materials.

***Property investment is generally illiquid***

Investment in property is generally illiquid, limiting the ability of an owner or a developer to convert property assets into cash at short notice or requiring a substantial reduction in the price that might otherwise be sought for such assets to ensure a quick sale.

***The Group's property development business involves distinctive risks***

The Group's property development business involves significant risks distinct from those involved in the ownership and operation of established properties, among other things, the risks that financing for development may not be available on favourable terms, that construction may not be completed on schedule or within budget (for reasons including shortages of equipment, material and labour, work stoppages, interruptions resulting from site conditions and inclement weather, unforeseen engineering, environmental and geological problems and unanticipated cost increases), that development may be affected by governmental regulations (including changes in building, planning and environment protection regulations and delays or failure to obtain the requisite construction, occupancy and pre-sale approvals and the certificates of compliance), and that developed properties may not be leased or sold on profitable terms and the risk that purchasers and/or tenants may default and delay in making payments.

***The Group is subject to risks incidental to property ownership, operation and maintenance of established properties***

The Group is also subject to risks incidental to the ownership, operation and maintenance of residential, industrial, office and related retail properties including, among other things, competition for tenants, changes in market rents, inability to renew leases or re-let space as existing leases expire, inability to collect rent from tenants due to bankruptcy or insolvency of tenants or otherwise, inability to dispose of major investment properties for the values at which they are recorded in the financial statements, increased operating costs and the need to renovate, repair and re-let space periodically and to pay the associated costs.

***The Hong Kong and PRC property markets have been cyclical historically***

Historically, the Hong Kong and PRC property markets have been cyclical markets. The volatile property market impacts on the best timing for both the acquisition of sites and the sale of completed development properties. This volatility, combined with the lead time required for completion of projects as well as the sale of existing properties, means that the Group's results from its property development activities may be susceptible to significant

## RISK FACTORS

fluctuations from year to year. Furthermore, fluctuations in these property markets will impact on the Group's balance sheet since the Group revalues its properties on an annual basis. See also "The Group is required to undertake property revaluation annually".

### ***The Group is subject to PRC property market risks***

Private ownership of property in the PRC is still at an early stage of development. The growth of the private property market has been and will continue to be affected by social, political, government policy, economic and legal factors which may inhibit demand for residential properties. For example, the PRC property market has in the past experienced weakness in demand due to the lack of a mature and active secondary market for private properties and the limited availability of mortgage loans to individuals in the PRC as a result of government interventions.

Historically, the PRC property market has been a cyclical market. The rapid expansion of the property markets in certain major cities in the PRC including Shanghai and Beijing in the early 1990s culminated in oversupply in the mid-1990s and a corresponding fall in property values and rentals in the second half of the decade. Since the late 1990s, property prices and the number of property development projects have increased significantly in major cities as a result of an increase in demand driven by domestic economic growth. There is, however, no assurance that the problems of oversupply and falling property prices that happened in the mid-1990s will not recur in the PRC property market.

### ***The Group's PRC property business may be adversely affected by changes in government policies (including the austerity measures recently introduced by the PRC government)***

The property industry in the PRC is subject to policies implemented by the PRC government from time to time. These policies may have a material impact on the entire or a certain part of the property industry. The business and results of operations of the Group in the PRC may also be adversely affected by changes in law, regulations or government and regulatory policies. The PRC government may, for instance, impose control over the supply of land, the pricing of properties, or the requirements for pre-sales and sales of properties by developers. It may also make available, or abolish existing, subsidies or preferential treatments (such as tax benefits or favourable financing arrangements).

In 2003, the PRC government announced its intentions to slow the PRC's annual GDP growth rate from what it considered an unsustainably high rate. However, in the first quarter of 2004, the PRC economy continued to accelerate, raising fears that the PRC government will take dramatic action, such as it did in 1994, resulting in a rapid economic slowdown which would have painful macro-economic effects in the PRC and PRC-related markets.

Specific actions taken by the PRC government in 2004 included: raising deposit reserves requirements and rediscount rates for banks, directing banks to reduce loans to overheating sectors of the economy, tightening and enforcing restrictions on land use to reduce new construction and property investment projects, cracking down on speculative currency inflows which may be invested in construction and construction-related industries, and the increase by the People's Bank of China on 29 October 2004 of benchmark one-year lending and deposit rates by 0.27% to 5.58% and 2.25%, respectively. On the other hand, the PRC government has also stated its intention to continue to encourage healthy growth in private consumption and exports. The PRC government has identified slightly lower prices in construction-related steel and aluminum sectors and a decrease in fixed asset investment levels in the second quarter of 2004 as initial signs of a successful gradual slowdown. However, there remains risk of more dramatic actions by the PRC government and another hard landing with severe



## RISK FACTORS

economic impact, which could have a material adverse effect on the Group's PRC property business.

As part of the PRC government's initiatives to moderate the growth of the property market, the central and local governments have introduced measures designed to clamp down over-investment in the property sector and to curb speculation. For example, the central government has adopted administrative measures by way of constricting land supply and raising resettlement compensation standards. Any policies designed to curb speculation may result in lower levels of demand for property in Shanghai and may result in lower prices for certain property sectors in Shanghai.

Although the Group's projects have so far not been materially adversely affected by the recent policy changes, if the Group's property development should become subject to any form of government control or newly implemented laws and regulations, depending on the nature and extent of such changes and the Group's ability to make corresponding adjustments, there may be a material adverse effect on the Group's business and operating results and its future expansion plan in the PRC. In particular, decisions by regulators concerning economic or business interests or goals which are inconsistent with the Group's interests or actions could adversely affect the results of its operations.

***There is no assurance of availability of suitable sites for the Group's future development in Hong Kong***

Other than the site situated at Reclamation Street, the Group does not have any significant land bank in Hong Kong for future developments. The sale of land in Hong Kong is largely conducted by way of public tender and auctions. Since the fourth quarter of 2004, land prices have gone up significantly, thereby potentially increasing the Group's acquisition costs. The Group's future growth prospects may, therefore, be affected, to the extent that it is unable to acquire suitable land for future development in Hong Kong at prices which would enable its projects to generate reasonable returns to the Group.

***There is no assurance of the availability of suitable sites for the Group's future development in the PRC***

The Group does not have any significant land bank in the PRC for future development. The Group normally only acquires land to fulfil its specific project requirements. In the PRC, the supply of substantially all land is controlled by the PRC Central Government, and the ability of the Group to acquire land for future development and its land acquisition costs, will accordingly be affected by government policies in relation to land supply. The PRC Central Government promulgated regulations which provide for the sale of land use rights for property developments by public tender and auctions. Such regulations, when fully implemented, could potentially increase the Group's land acquisition costs. Various local governments in different parts of China have also, in recent years, tightened their control over the supply of land. The Group's future growth prospects may, therefore, be affected to the extent that it is unable to identify or to acquire suitable land for future development in the PRC at prices which would enable its projects to generate reasonable returns to the Group.

## RISK FACTORS

### ***The Group is subject to Hong Kong property market risks***

The Group is subject to Hong Kong property market risks. The Group has a portfolio of development properties and investment properties in Hong Kong. It derives recurrent rental and property management revenue and operating profits from its Hong Kong development and investment properties and is, consequently, dependent on the state of the Hong Kong property market. Historically, the Hong Kong property market has been cyclical and Hong Kong property values have been affected by supply and demand of comparable properties, the rate of economic growth in Hong Kong and political and economic developments in the PRC. Accordingly, any decline in the performance of the Hong Kong property market could adversely affect the Group's revenue and financial position.

In the latter part of 1996 and the first three quarters of 1997, Hong Kong property prices and rents for residential, commercial and industrial properties increased significantly. Since then, rents and property values in Hong Kong have declined significantly as a result of the general economic downturn in Asia, the slowdown in the Hong Kong economy, the increase in supply of new properties, and high interest rates on Hong Kong dollar borrowings. There can be no assurance that rents and property values will not decline or that interest rates will not rise in the future. Since 2001, the overall leasing market has slowed down, and the slowdown was further affected by the events of 11 September 2001 in the United States although both the leasing market and the residential property market have shown signs of recovery since the fourth quarter of 2003. In the event of a slow down of the recovery or an economic decline, the Group may experience market pressures that affect Hong Kong property companies, such as pressures from tenants or prospective tenants to provide rent reductions or reduced market prices for sale properties. Rental values are also affected by factors such as political developments, governmental regulations and changes in planning or tax laws, interest rate levels and inflation. Additional supply of new residential and office properties is also scheduled for completion over the next few years and such additional supply could also adversely affect residential and office rents and occupancy rates as well as sale prices for new residential units.

In addition, from time to time, and especially during the economic downturn in Asia which began in 1997, the Group has experienced pressure from existing and prospective commercial tenants to provide rent reductions or longer rent-free periods than previously given. This has had an impact on the Group's rental income from its commercial property investments in the past and the recurrence of such market conditions in the future may have an adverse effect on the Group's business, operating results and financial condition.

### ***The Group is required to undertake property revaluation annually***

The adoption of Hong Kong Accounting Standard 40 on Investment Property would require all revaluation gains or losses of investment properties to be taken directly to the income statement, whereas under the old standards such changes are generally taken to the revaluation reserve account on a portfolio basis. The volatility of property prices therefore could have significant impact on the level and consistency of the Group's future result of operation.

### ***The Group could be adversely affected in the event of a recurrence of SARS***

The outbreak of Severe Acute Respiratory Syndrome ("SARS") that began in Mainland China and Hong Kong in early 2003 and spread elsewhere, led to a decline in the overall office and retail rental levels in Hong Kong although it had not had a material adverse effect on the Group's operations for the financial year of 2003.

## RISK FACTORS

On 5 July 2003, the World Health Organisation announced that the last known chain of human-to-human transmission of the SARS corona virus had been broken, bringing to an end the initial outbreak of SARS. Since then the occupancy rates of the Group's two operating hotels have gradually rebounded to over 90 per cent. by August 2003. The occurrence of another SARS outbreak may have an adverse effect on the business activities volumes in the markets in which the Group operates and consequently have an adverse effect on the Group's operations.

### ***The Group may be adversely affected by avian influenza***

Avian influenza is an infectious disease of birds caused by Type A strains of the influenza virus. An epidemic of highly pathogenic avian influenza caused by the H5N1 virus subtype, which began in mid-December 2003 in the Republic of Korea and is now being reported in 13 countries and regions (including the PRC), is considered to be a particular public health concern. To date, the operations of the Group have not been materially affected by the outbreaks of avian influenza infections in the PRC. If avian influenza infections continue to escalate, the virus transforms into one capable of human-to-human transmission or if an outbreak occurs in Hong Kong, the effects on the regional economies could be similar to or worse than those experienced in 2003 as a result of SARS.

### ***An unfavourable change in the PRC Individual Travel Policy may reduce demand for the Group's retail properties***

The increase in tourists from the PRC following the deregulation by the PRC government of the grant of visas for individual PRC residents in certain cities of the PRC to visit Hong Kong has had a positive impact on the retail sector in Hong Kong. Any adverse change in the policy of the PRC government, for example, by tightening up its control over the grant of visas for visiting Hong Kong or expanding the scope of the Frequent Individual Travel Scheme to cover other countries and regions, may reduce the number of PRC tourists to Hong Kong and the demand for retail services and therefore the demand for the Group's retail leasing properties.

## **Risks Relating to the PRC**

*The Group's financial condition, results of operations and prospects will be subject to the economic, political and legal developments in the PRC as well as the economies in the surrounding region.*

### ***The PRC's economic, political and social conditions, as well as government policies, could affect the Group's business***

The PRC economy differs from the economies of most developed countries in many respects, including:

- extent of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

## RISK FACTORS

While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven, both geographically and among the various sectors of the economy. The PRC government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also have a negative effect on the Group's operations. For example, the Group financial condition and results of operations may be adversely affected by the PRC government's control over capital investments or any changes in tax regulations or foreign exchange controls that are applicable to it.

The PRC economy has been transitioning from a planned economy to a more market-oriented economy. Although in recent years the PRC government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating the development of industries in the PRC by imposing topdown policies. It also exercises significant control over PRC economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

### ***Investments in the PRC involve approval risks***

Property development projects in the PRC require approvals to be obtained from a number of governmental authorities at different levels, receipt of which cannot be assured. These property development projects have been and may in the future be subject to certain risks, including changes in governmental regulations and economic policies, including, among other things, regulations and policies restricting supply of land and construction and sales of residential properties and related limitations on extensions of credit and mortgage loans, building material shortages, increases in labour and material costs, changes in general economic and credit conditions and the illiquidity of land and other property. There can be no assurance that required approvals will be obtained.

### ***The Group is subject to foreign exchange risks***

A significant proportion of the Group's turnover is derived from its operations in the PRC and Hong Kong.

Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong and US dollars, has been based on rates set by The People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rate for the conversion of Renminbi into US dollars has generally been stable. Since 1983, the Hong Kong dollar has been officially linked to the US dollar at the rate of HK\$7.80 to one US dollar through the operation of a strict currency board system. Since then, the market exchange rates have stayed close to HK\$7.80 = 1 US dollar. See "Exchange Rates."

In recent times, the Renminbi has generally been perceived as having appreciated in value relative to the US dollar, notwithstanding the current fixed exchange rates. Less than 10% of the Group's revenues and assets are denominated in Renminbi. The Group's investment properties in Hong Kong derive their revenues (and incur associated expenses) in Hong Kong dollars.

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Any abandonment of the official exchange rate policies for the Renminbi and Hong Kong dollar may lead to sharp changes in the value of the Hong Kong dollar and/or Renminbi against the US dollar and other foreign currencies and add significantly to the volatility of the Hong Kong dollar and Renminbi exchange rate in the future, both of which may materially affect the financial condition and results of the operations of the Group.

***The legal system in the PRC is less developed than in certain other countries and laws may not be interpreted and enforced in a consistent manner***

The PRC legal system is a civil law system. Unlike the common law system, the civil law system is based on written statutes in which decided legal cases have little value as precedents. Since 1979, the PRC government has begun to promulgate a comprehensive system of laws and has introduced many new laws and regulations to provide general guidance on economic and business practices in the PRC and to regulate foreign investment. Progress has been made in the promulgation of laws and regulations dealing with economic matters such as corporate organisation and governance, foreign investment, commerce, taxation and trade. The promulgation of new changes to existing laws and the abrogation of local regulations by national laws could have a negative impact on the business and prospects of the Company and its joint ventures. In addition, as these laws, regulations and legal requirements are relatively recent, their interpretation and enforcement may involve significant uncertainty. The interpretation of PRC laws may be subject to policy changes which reflect domestic political changes. As the PRC legal system develops, the promulgation of new laws, changes to existing laws and the preemption of local regulations by national laws may have an adverse effect on the Group's prospects, financial condition and results of operations.

### **Risks Relating to the Bonds and the Shares**

***An active trading market for the Bonds may not develop***

The Bonds are a new issue of securities for which there is currently no trading market. Application has been made to the Hong Kong Stock Exchange for the Bonds to be admitted for trading on the Hong Kong Stock Exchange. No assurance can be given that an active trading market for the Bonds will develop or as to the liquidity or sustainability of any such market, the ability of holders to sell their Bonds or the price at which holders will be able to sell their Bonds. The Lead Manager is not obliged to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Lead Manager.

***Future issues, offers or sales of Shares may adversely affect the value of the Bonds***

The market price of the Bonds and the Shares could decline as a result of future issues, offers of sales of a large number of the Shares or securities convertible or exchangeable into or exercisable for the Shares or any securities or financial instruments whose economic value is determined directly or indirectly by reference to the market price of the Shares, or the perception that such issues, offers or sales could occur. If a large number of the Shares is sold, the market price for the Bonds or the Shares could be depressed. As the Group will continue to require significant funding to develop its current and future projects, the Group may need to raise further capital by way of equity or equity-linked issues in future.

<b>RISK FACTORS</b>
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*There may be less publicly available information about the Company than is available in certain other jurisdictions, and the Company's consolidated financial statements will be prepared in accordance with HKFRS*

There may be less publicly available information about companies listed in Hong Kong such as the Company than is regularly made available by public companies in certain other countries. In addition, the Company's financial statements are prepared and presented in accordance with HKFRS, which differ in certain significant respects from IFRS. See "Summary of Certain Differences Between HKFRS and IFRS."

**Other Risks**

***Recent resignation of the Chief Executive of HKSAR***

Mr. Tung Chee-hwa, Hong Kong's former chief executive, resigned on 10 March 2005. Mr. Donald Tsang Yam-kuen is now serving as acting Chief Executive until 10 July 2005. The effect of Tung's resignation on the Hong Kong economy is uncertain and it is possible that the results of the operations of the Group will be affected.

## TERMS AND CONDITIONS OF THE BONDS

*The following (subject to amendment, and other than the words in italics) is the text of the Terms and Conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:*

The issue of up to HK\$2,000,000,000 aggregate principal amount of Zero Coupon Convertible Bonds due 2010 (the **Bonds**, which term shall include, unless the context requires otherwise, any further Bonds issued in accordance with Condition 15 and consolidated and forming a single series therewith) of Chinese Estates Holdings Limited (the **Company**) and the right of conversion into Shares (as defined in Condition 6(a)(v)) of the Company were authorised by a resolution of the Board of Directors of the Company passed on 9 March 2005. The Bonds are constituted by a trust deed to be dated on or about 20 April 2005 (the **Trust Deed**) made between the Company and DB Trustees (Hong Kong) Limited as trustee for the holders of the Bonds (the **Trustee**, which term shall, where the context so permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Deed) and are subject to the paying and conversion agency agreement to be dated on or about 20 April 2005 (the **Agency Agreement**) with the Trustee, Deutsche Bank AG, Hong Kong Branch as principal paying and conversion agent (the **Principal Agent**), Deutsche Bank Luxembourg S.A., as transfer agent and registrar (the **Registrar**) and the other paying, conversion and transfer agents appointed under it (each a **Paying Agent**, **Conversion Agent**, **Transfer Agent** and together with the Registrar and the Principal Agent, the **Agents**) relating to the Bonds. References to the **Principal Agent**, **Registrar** and **Agents** below are references to the principal agent, registrar and agents for the time being for the Bonds. The statements in these Terms and Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Unless otherwise defined, terms used in these Conditions have the meaning specified in the Trust Deed. Copies of the Trust Deed and of the Agency Agreement are available for inspection at the registered office of the Trustee being at the date hereof at 55/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong and at the specified offices of each of the Agents. The Bondholders are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them.

### **1. Status**

The Bonds constitute direct, unsubordinated, unconditional and (subject to the provisions of Condition 5) unsecured obligations of the Company and the Bonds shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by applicable legislation and subject to Condition 5, at all times rank at least equally with all of its other present and future unsecured and unsubordinated obligations.

### **2. Form and Denomination**

The Bonds are issued in registered form in the denomination of HK\$10,000 each, without coupon attached. A Bond certificate (each a **Certificate**) will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders which the Company will procure to be kept by the Registrar.

*Upon issue, the Bonds will be represented by the Global Certificate deposited with a common depositary for, and representing Bonds registered in the name of a nominee of, Euroclear and Clearstream. The Conditions are modified by certain provisions contained in the Global Certificate.*

## TERMS AND CONDITIONS OF THE BONDS

### 3. Title

Title to the Bonds passes only by transfer and registration in the register of Bondholders as described in Condition 4. The holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Terms and Conditions **Bondholder** and (in relation to a Bond) **holder** means the person in whose name a Bond is registered.

### 4. Transfers of Bonds; Issue of Certificates

#### (a) Register

The Company will cause to be kept at the specified office outside Hong Kong of the Registrar and in accordance with the terms of the Agency Agreement a register on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers of the Bonds (the **Register**). Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.

#### (b) Transfer

Subject to the Agency Agreement, a Bond may be transferred by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the Registrar or any of the Agents. No transfer of a Bond will be valid unless and until entered on the Register.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

#### (c) Delivery of New Certificates

Each new Certificate to be issued upon a transfer of Bonds will, within three business days of receipt by the Registrar or, as the case may be, any other relevant Agent of the form of transfer, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (but free of charge to the holder) to the address specified in the form of transfer.

Except in the limited circumstances described herein (see **The Global Certificate**), owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.

Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred or converted, a new Certificate in respect of the Bonds not so transferred or converted will, within three business days of delivery of the original Certificate to the Registrar or other relevant Agent, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred or converted (but free of charge to the holder) to the address of such holder appearing on the Register.

For the purposes of Condition 4, **business day** shall mean a day other than a Saturday or Sunday on which banks are open for business in the city in which the specified office of the



<b>TERMS AND CONDITIONS OF THE BONDS</b>
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Registrar (if a Certificate is deposited with it in connection with a transfer or conversion) or the Agent with whom a Certificate is deposited in connection with a transfer or conversion, is located.

**(d) Formalities Free of Charge**

Registration of transfer of Bonds will be effected without charge by or on behalf of the Company or any of the Agents, but upon payment (or the giving of such indemnity as the Company or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer.

**(e) Closed Periods**

No Bondholder may require the transfer of a Bond to be registered:

- (i) during the period of seven days ending on (and including) the dates for payment of any principal pursuant to the Conditions;
- (ii) after a Conversion Notice (as defined in Condition 6(b)) has been delivered with respect to a Bond; or
- (iii) after, a Relevant Event Redemption Notice (as defined in Condition 8(d)) or a Put Exercise Notice (as defined in Condition 8(e)) has been deposited in respect of such Bond.

**(f) Regulations**

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Company, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Bondholder who asks for one.

**5. Negative Pledge**

**(a) Negative Pledge**

The Company undertakes that, so long as any of the Bonds remains outstanding (as defined in the Trust Deed) or any amount is due under or in respect of any Bond or otherwise under the Trust Deed, it will not, and will procure that none of its Material Subsidiaries will, create or permit to subsist or arise any Encumbrance upon the whole or any part of their respective present or future assets or revenues to secure any Relevant Indebtedness of the Company or any other subsidiary or associate of the Company unless the outstanding Bonds are forthwith secured by the same Encumbrance or, at the option of the Company by such other security as the Bondholders by Extraordinary Resolution may approve.

**(b) Interpretation**

In these Conditions:

- (i) any reference to an *Encumbrance* is to a mortgage, charge, pledge, lien or other encumbrance or security interest securing any obligation of any person;

<b>TERMS AND CONDITIONS OF THE BONDS</b>
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- (ii) any reference to **Relevant Indebtedness** is to any indebtedness in the form of or represented by debentures, loan stock, bonds, notes, bearer participation certificates, depository receipts, certificates of deposit or other similar securities or instruments or by bills of exchange drawn or accepted for the purpose of raising money which are, or are issued with the intention on the part of the issuer thereof that they should be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or on any other securities market (whether or not initially distributed by way of private placement; and
- (iii) any reference to a **subsidiary** or **Subsidiary** of the Company is to a company the financial statements of which are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the Company; and
- (iv) any reference to **Material Subsidiary** means any Subsidiary of the Company:
  - (a) whose gross revenues or (in the case of a Subsidiary which itself has subsidiaries) consolidated gross revenues, as shown by its latest audited income statement are at least five per cent. of the consolidated gross revenues as shown by the latest published audited consolidated income statement of the Company and its Subsidiaries; or
  - (b) whose gross assets or (in the case of a Subsidiary which itself has subsidiaries) gross consolidated assets, as shown by its latest audited balance sheet are at least five per cent. of the amount which equals the amount included in the consolidated gross assets of the Company and its Subsidiaries as shown by the latest published audited consolidated balance sheet of the Company and its Subsidiaries as being represented by the investment of the Company in each Subsidiary whose accounts are not consolidated with the consolidated audited accounts of the Company and after adjustment for minority interest,  
  
provided that, in relation to paragraphs (a) and (b) above:
    - (i) in the case of a corporation or other business entity becoming a Subsidiary after the end of the financial period to which the latest consolidated audited accounts of the Company relate, the reference to the then latest consolidated audited accounts of the Company for the purposes of the calculation above shall, until consolidated audited accounts of the Company for the financial period in which the relevant corporation or other business entity becomes a Subsidiary are published, be deemed to be a reference to the then latest consolidated audited accounts of the Company adjusted to consolidate the latest audited accounts (consolidated in the case of a Subsidiary which itself has Subsidiary) of such Subsidiary in such accounts;
    - (ii) if at any relevant time in relation to the Company or any Subsidiary which itself has Subsidiaries no consolidated accounts are prepared and audited, total assets of the Company and/or any such Subsidiary shall be determined on the basis of pro forma consolidated accounts prepared for this purpose by the Company and reviewed by the Auditors (as defined in the Trust Deed);

## TERMS AND CONDITIONS OF THE BONDS

- (iii) if at any relevant time in relation to any Subsidiary, no accounts are audited, its total assets (consolidated, if appropriate) shall be determined on the basis of pro forma accounts (consolidated, if appropriate) of the relevant Subsidiary prepared for this purpose by the Company and reviewed by the Auditors; and
  - (iv) if the accounts of any Subsidiary (not being a Subsidiary referred to in proviso (i) above) are not consolidated with those of the Company, then the determination of whether or not such subsidiary is a Material Subsidiary shall be based on a pro forma consolidation of its accounts (consolidated, if appropriate) with the consolidated accounts (determined on the basis of the foregoing) of the Company; or
- (c) any Subsidiary of the Company to which is transferred the whole or substantially the whole of the assets of a Subsidiary which immediately prior to such transfer was a Material Subsidiary, provided that the Material Subsidiary which so transfers shall forthwith upon such transfer cease to be a Material Subsidiary and the Subsidiary to which the assets are so transferred shall become a Material Subsidiary at the date on which the first published audited accounts (consolidated, if appropriate), of the Company prepared as of a date later than such transfer are issued.

### 6. Conversion

#### (a) Conversion Right

- (i) **Conversion Period:** Subject as hereinafter provided, Bondholders have the right to convert their Bonds into Shares at any time during the Conversion Period referred to below.

The right of a Bondholder to convert any Bond into Shares is called the **Conversion Right**. Subject to and upon compliance with, the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on and after 20 May 2005 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on 20 March 2010 (but, except as provided in Condition 6(a)(iv), in no event thereafter) or if such Bond shall have been called for redemption before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than seven business days (in the place aforesaid) prior to the date fixed for redemption thereof (the **Conversion Period**).

The number of Shares to be issued on conversion of a Bond will be determined by dividing the principal amount of the Bond to be converted by the Conversion Price in effect at the Conversion Date (both as hereinafter defined). A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate principal amount of the Bonds to be converted.

- (ii) **Fractions of Shares:** Fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect thereof. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after 9 March 2005 which reduces the number of Shares outstanding, the Company will upon conversion of Bonds pay in cash (in Hong Kong

## TERMS AND CONDITIONS OF THE BONDS

dollars by means of a Hong Kong dollar cheque drawn on a bank in Hong Kong) a sum equal to such portion of the principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights as corresponds to any fraction of a Share not issued as a result of such consolidation or re-classification aforesaid if such sum exceeds HK\$100.00.

- (iii) **Conversion Price:** The price at which Shares will be issued upon conversion (the **Conversion Price**) will initially be HK\$7.37 per Share but will be subject to adjustment in the manner provided in Condition 6(c).
- (iv) **Revival and/or survival after Default:** Notwithstanding the provisions of Condition 6(a)(i), if:
  - (A) the Company shall default in making payment in full in respect of any Bond which shall have been called for redemption on the date fixed for redemption thereof,
  - (B) any Bond has become due and payable prior to the Maturity Date by reason of the occurrence of any of the events under Condition 10 or
  - (C) any Bond is not redeemed on the Maturity Date in accordance with Condition 8(a),

the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders and, notwithstanding the provisions of Condition 6(a)(i), any Bond in respect of which the Certificate and Conversion Notice are deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined below) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.

- (v) **Meaning of Shares:** As used in these Conditions, the expression **Shares** means ordinary shares of par value HK\$0.10 each of the Company or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Company.

### (b) **Conversion Procedure**

- (i) **Conversion Notice:** To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense during normal business hours at the specified office of any Conversion Agent a notice of conversion (a **Conversion Notice**) in duplicate in the form (for the time being current) obtainable from the specified office of each Agent, together with the relevant Certificate and any amounts required to be paid by the Bondholder under Condition 6(b)(ii).

## TERMS AND CONDITIONS OF THE BONDS

The conversion date in respect of a Bond (the *Conversion Date*) must fall at a time when the Conversion Right attaching to that Bond is expressed in these Conditions to be exercisable (subject to the provisions of Condition 6(a)(iv) above) and will be deemed to be the Stock Exchange Business Day (as defined below) immediately following the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise of such Conversion Right. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn unless the Company consents to such withdrawal. *Stock Exchange Business Day* means any day (other than a Saturday or Sunday) on which The Stock Exchange of Hong Kong Limited (the *Hong Kong Stock Exchange*) or the Alternative Stock Exchange (as defined in Condition 6(c) below), as the case may be, is open for business.

- (ii) **Stamp Duty etc.:** A Bondholder delivering a Certificate in respect of a Bond for conversion must pay to the relevant Conversion Agent any taxes and capital, stamp, issue and registration duties arising on conversion (other than any taxes or capital or stamp duties payable in Bermuda, Hong Kong and, if relevant, in the place of the Alternative Stock Exchange, by the Company in respect of the allotment and issue of Shares and listing of the Shares on the Hong Kong Stock Exchange on conversion) (the *Taxes*) and such Bondholder or the Trustee (as the case may be) must pay (in the case of the Trustee, by way of deduction from the net proceeds of sale as aforesaid) all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such conversion. The Company will pay all other expenses arising on the issue of Shares on conversion of Bonds. The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued) must provide the Agent with details of the relevant tax authorities to which the Agent must pay monies received in settlement of Taxes payable pursuant to this Condition 6(b)(ii). The Agent is under no obligation to determine whether a Bondholder is liable to pay any Taxes including stamp, issue, registration or similar taxes and duties or the amounts payable (if any) in connection with this Condition 6(b)(ii).
  
- (iii) **Registration:** As soon as practicable, and in any event not later than five days after the Conversion Date, the Company will, in the case of Bonds converted on exercise of the Conversion Right and in respect of which a duly completed Conversion Notice has been delivered and the relevant Certificate and amounts payable by the relevant Bondholder deposited as required by sub-paragraphs (i) and (ii), register the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Shares in the Company's share register and will, if the Bondholder has also requested in the Conversion Notice, take all necessary action to procure that Shares are delivered through the Central Clearing and Settlement System of Hong Kong for so long as the Shares are listed on the Hong Kong Stock Exchange; or will make such certificate or certificates in respect of such Shares available for collection at the office of the Company's share registrar in Hong Kong (currently Computershare Hong Kong Investor Services Limited) notified to Bondholders in accordance with Condition 16 or, if so requested in the relevant Conversion Notice, will cause its share registrar to mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense of the person to whom such certificate or certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any other securities, property or cash required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer thereof, in which case a single certificate will be issued in respect of all Shares issued on conversion of

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Bonds subject to the same Conversion Notice and which are to be registered in the same name.

If the Conversion Date in relation to any Bond shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in Condition 6(c) and the Trust Deed and the relevant Registration Date (as defined below) falls on a date when the relevant adjustment has not yet been reflected in the then current Conversion Price, the provisions of this sub-paragraph (iii) shall be applied *mutatis mutandis* to such number of Shares as is equal to the excess of the number of Shares which would have been required to be issued on conversion of such Bond if the relevant retroactive adjustment had been given effect as at the said Registration Date over the number of Shares previously issued (or which the Company was previously bound to issue) pursuant to such conversion. If the Company has elected to pay the converting Bondholder of the Bond cash in lieu of Shares pursuant to the Cash Settlement Option (as defined below) set form in Condition 6(b)(iv), the number of excess Shares shall be determined by assuming that the Company had not elected the Cash Settlement Option. In such case, the Company shall satisfy its obligations under this Condition 6(b)(iii) by paying, as soon as practicable and in any event not later than 13 Stock Exchange Business Days after the date of such adjustment of the Conversion Price, to the converting Bondholder an amount in Hong Kong dollars equal to the Current Market Price of any such excess Shares on the date the Company would be required to deliver such Shares if the Cash Settlement Option had not been exercised.

The person or persons specified for that purpose will become the holder of record of the number of Shares issuable upon conversion with effect from the date he is or they are registered as such in the Company's register of members (the **Registration Date**). The Shares issued upon conversion of the Bonds will in all respects rank *pari passu* with the Shares in issue on the relevant Registration Date. Save as set out in these Conditions, a holder of Shares issued on conversion of Bonds shall not be entitled to any rights the record date for which precedes the relevant Registration Date.

If the record date for the payment of any dividend or other distribution in respect of the Shares is on or after the Conversion Date in respect of any Bond, but before the Registration Date (disregarding any retroactive adjustment of the Conversion Price referred to in this sub-paragraph (iii) prior to the time such retroactive adjustment shall have become effective), the Company will pay to the converting Bondholder or his designee an amount (the **Equivalent Amount**) equal to any such dividend or other distribution to which he would have been entitled had he on that record date been such a shareholder of record and will make the payment at the same time as it makes payment of the dividend or other distribution, or as soon as practicable thereafter, but, in any event, not later than seven days thereafter. The Equivalent Amount shall be paid by means of a Hong Kong dollar cheque drawn on a bank in Hong Kong and sent to the address specified in the relevant Conversion Notice. For the avoidance of doubt, the Company will not be required to pay the Equivalent Amount in respect of a Bond if (i) it has elected with respect to such Bond to pay cash in lieu of Shares pursuant to Condition 6(b)(iv) and (ii) the average Closing Price by reference to which the Cash Settlement Amount is determined reflects the entitlement to such dividends or other distribution.

- (iv) **Cash Settlement:** Notwithstanding the Conversion Right of each Bondholder in respect of each Bond, at any time when the delivery of Shares deliverable upon conversion of the Bonds is required to satisfy the Conversion Right in respect of a

## TERMS AND CONDITIONS OF THE BONDS

Conversion Notice, the Company shall have the option to pay to the relevant Bondholder an amount of cash in Hong Kong dollars equal to the Cash Settlement Amount (as defined below) in order to satisfy such Conversion Right in full or in part (in which case the other part shall be satisfied by the delivery of Shares) (the **Cash Settlement Option**). In order to exercise the Cash Settlement Option, the Company shall provide notice of the exercise of the Cash Settlement Option (the **Cash Settlement Notice**) to the relevant Bondholder as soon as practicable but no later than the Stock Exchange Business Day following the date of delivery of the Conversion Notice (the **Cash Settlement Notice Date**). The Cash Settlement Notice must specify the number of Shares in respect of which the Company will make a cash payment in the manner described in this Condition. The Company shall pay the Cash Settlement Amount not less than 10 Stock Exchange Business Days but no later than 13 Stock Exchange Business Days following the Cash Settlement Notice Date. If the Company exercises its Cash Settlement Option in respect of Bonds held by more than one Bondholder which are to be converted on the same Conversion Date, the Company shall make the same proportion of cash and Shares available to such converting Bondholders.

**Cash Settlement Amount** means the product of:

- (i) the number of Shares otherwise deliverable upon exercise of the Conversion Right in respect of the Bond(s) to which the Conversion Notice applies, and in respect of which the Company has elected the Cash Settlement Option; and
- (ii) the Average Closing Price of the Shares for each day during the ten Trading Days (as defined below) immediately following and excluding the Cash Settlement Notice Date.

### (c) Adjustments to Conversion Price

The Conversion Price will be subject to adjustment in the following events as set out in the Trust Deed:

- (1) **Consolidation, Subdivision or Reclassification:** If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

Where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

- (2) **Capitalisation of Profits or Reserves:**

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- (i) If and whenever the Company shall issue any Shares credited as fully paid to the Shareholders by way of capitalisation of profits or reserves (including any share premium account) including, Shares paid up out of distributable profits or reserves and/or share premium account issued (except any Scrip Dividend) and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

Where:

- A is the aggregate nominal amount of the issued Shares immediately before such issue; and
- B is the aggregate nominal amount of the issued Shares immediately after such issue.

- (ii) In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price of such Shares exceeds the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the aggregate nominal amount of the issued Shares immediately before such issue;
- B is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is the Current Market Price of the Shares issued by way of Scrip Dividend in respect of each existing Share in lieu of the whole, or the relevant part, of the Relevant Cash Dividend; and
- C is the aggregate nominal amount of Shares issued by way of such Scrip Dividend;

or by making such other adjustment as an independent investment bank of international repute (acting as expert), selected by the Company and approved in writing by the Trustee, shall certify to the Trustee is fair and reasonable.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(3) ***Distributions:***

- (i) Subject to Condition 6(c)(3)(ii), if and whenever the Company shall pay or make any Distribution to the Shareholders (except to the extent that the Conversion Price falls



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to be adjusted under Condition 6(c)(2) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Distribution by the following fraction:

$$\frac{A - B}{A}$$

Where:

A is the Current Market Price of one Share on the last Trading Day preceding the date on which the Distribution is publicly announced; and

B is the Fair Market Value on the date of such announcement of the portion of the Distribution attributable to one Share.

Such adjustment shall become effective on the date that such Distribution is actually made.

- (ii) If and whenever the Company shall pay or make any Distribution in cash only to the Shareholders, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Distribution by the following fraction:

$$\frac{A - B}{A}$$

Where:

A is the Current Market Price of one Share on the record date for the determination of Shareholders entitled to receive such Distribution in cash; and

B is the amount of cash so distributed attributable to one Share.

Such adjustment shall become effective on the record date for the determination of Shareholders entitled to receive such Distribution in cash.

- (4) ***Rights Issues of Shares or Options over Shares:*** If and whenever the Company shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, of options, warrants or other rights to subscribe for or purchase any Shares, in each case at less than the Current Market Price per Share on the last Trading Day preceding the date of the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

A is the number of Shares in issue immediately before such announcement;

B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights

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issued by way of rights and for the total number of Shares comprised therein would purchase at such Current Market Price per Share; and

- C is the aggregate number of Shares issued or, as the case may be, comprised in the grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be).

- (5) ***Rights Issues of Other Securities:*** If and whenever the Company shall issue any securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares) to all or substantially all Shareholders as a class by way of rights or grant to all or substantially all Shareholders as a class by way of rights, of options, warrants or other rights to subscribe for or purchase any securities (other than Shares or options, warrants or other rights to subscribe or purchase Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

Where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue or grant is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be).

- (6) ***Issues at less than Current Market Price:*** If and whenever the Company shall issue any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or the issue or grant of options, warrants or other rights to subscribe or purchase Shares in each case at a price per Share which is less than the Current Market Price on the last Trading Day preceding the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{C}$$

Where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the grant of such options, warrants or other rights to subscribe for or purchase any Shares;
- B is the number of Shares which the aggregate consideration receivable for the issue of such additional Shares would purchase at such Current Market Price per Share; and

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C is the number of Shares in issue immediately after the issue of such additional Shares.

References to additional Shares in the above formula shall, in the case of an issue by the Company of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the issue of such options, warrants or other rights.

- (7) ***Other Issues at less than Current Market Price:*** Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this Condition 6(c)(7), if and whenever the Company or any of its Subsidiaries (otherwise than as mentioned in Conditions 6(c)(4), 6(c)(5) or 6(c)(6)), or (at the direction or request of or pursuant to any arrangements with the Company or any of its Subsidiaries) any other company, person or entity shall issue any securities (other than the Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Company on conversion, exchange or subscription at a consideration per Share which is less than the Current Market Price on the last Trading Day preceding the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the number of Shares in issue immediately before such issue;
- B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of issue of such securities

- (8) ***Modification of Rights of Conversion etc.:*** If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition 6(c)(7) (other than in accordance with the terms of such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than the Current Market Price on the last Trading Day preceding the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

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$$\frac{A + B}{A + C}$$

Where:

- A is the number of Shares in issue immediately before such modification;
- B is the number of Shares which the aggregate consideration receivable by the Company for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an independent investment bank of international repute (acting as expert), selected by the Company and approved in writing by the Trustee, consider appropriate (if at all) for any previous adjustment under this Condition 6(c)(8) or Condition 6(c)(7).

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

- (9) **Other Offers to Shareholders:** If and whenever the Company or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with the Company or any of its Subsidiaries) any other company, person or entity issues, sells or distributes any securities in connection with which an offer to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under Condition 6(c)(4), Condition 6(c)(5) or Condition 6(c)(6)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A - B}{A}$$

Where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities.

- (10) **Other Events:** If the Company determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in this Condition 6, the Company shall, at its own expense, consult an independent investment bank of international repute (acting as expert), selected by the Company and approved in writing by the Trustee, to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the

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date on which such adjustment should take effect and upon such determination by the independent investment bank such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that where the circumstances giving rise to any adjustment pursuant to this Condition 6 have already resulted or will result in an adjustment to the Conversion Price or where the circumstances giving rise to any adjustment arise by virtue of circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 6 as may be advised by the independent investment bank to be in their opinion appropriate to give the intended result.

For the purposes of these Conditions:

**Alternative Stock Exchange** means at any time, in the case of the Shares, if they are not at that time listed and traded on the Hong Kong Stock Exchange, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in.

**Average Closing Price** is the arithmetic average of the Closing Price per Share for each Trading Day during the Relevant Period. In making any such calculation, such adjustments (if any) shall be made as an independent investment bank of international repute (acting as expert) selected by the Company and approved by the Trustee may consider appropriate to reflect (a) any consolidation or subdivision of the Shares, (b) issues of Shares by way of capitalisation of profits or reserves, or any like or similar event or (c) the modification of any rights to dividends of Shares.

**Closing Price** for the Shares for any Trading Day shall be the price published in the Daily Quotation Sheet published by the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange for such day.

**Current Market Price** means, in respect of a Share at a particular date, the average of the closing prices published in the Daily Quotation Sheet of the Hong Kong Stock Exchange or the equivalent quotation sheet of an Alternative Stock Exchange for one Share (being a Share carrying full entitlement to dividend) for the five consecutive Trading Days ending on the Trading Day immediately preceding such date, provided that if at any time during the said five Trading Day period the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then:

- (i) if the Shares to be issued in such circumstances do not rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share; or
- (ii) if the Shares to be issued in such circumstances rank for the dividend in question, the quotations on the dates on which the Shares shall have been quoted ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by such similar amount;

and provided further that if the Shares on each of the said five Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be issued do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share.

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**Distribution** means a) any dividend or distribution (whether of cash or assets in specie) by the Company for any financial period (whenever paid or made and however described) (and for these purposes a distribution of assets in specie includes without limitation an issue of shares or other securities credited as fully or partly paid (other than Shares credited as fully paid to the extent an adjustment to the Conversion Price is made in respect thereof under Condition 6(c)(2)(i)) by way of capitalisation of reserves) unless it comprises a purchase or redemption of Shares by or on behalf of the Company (or a purchase of Shares by or on behalf of a Subsidiary of the Company), where the weighted average price (before expenses) on any one day in respect of such purchases does not exceed the Current Market Price of the Shares as published in the Daily Quotation Sheet of the Hong Kong Stock Exchange or the equivalent quotation sheet of an Alternative Stock Exchange, as the case may be, by more than five per cent. either (1) on that date, or (2) where an announcement has been made of the intention to purchase Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement and, if in the case of either (1) or (2), the relevant day is not a Trading Day, the immediately preceding Trading Day.

**Fair Market Value** means, with respect to any assets, security, option, warrants or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by an independent investment bank of international repute (acting as expert) selected by the Company and approved in writing by the Trustee, provided that (i) the fair market value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend per Share determined as at the date of announcement of such dividend; (ii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such investment banks) the fair market value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five trading days on the relevant market commencing on the first such trading day such options, warrants or other rights are publicly traded.

**Relevant Cash Dividend** means any cash dividend specifically declared by the Company.

**Relevant Period** means the period beginning on the 30th Trading Day prior to the Trading Day (the **relevant Trading Day**) immediately preceding the date on which the Shares are quoted ex-dividend on the Hong Kong Stock Exchange (or any relevant Alternative Stock Exchange) in respect the cash dividend which caused the adjustment to the Conversion Price pursuant to Condition 6(c)(3), and ending on the relevant Trading Day.

**Scrip Dividend** means any Shares issued in lieu of the whole or any part of any Relevant Cash Dividend being a dividend which the Shareholders concerned would or could otherwise have received and which would not have constituted a Distribution (and for the avoidance of doubt to the extent that no adjustment is to be made under Condition 6(c)(3) in respect of the amount by which the Current Market Price of the Shares exceeds the Relevant Cash Dividend or part thereof).

**Trading Day** means a day when the Hong Kong Stock Exchange or, as the case may be an Alternative Stock Exchange, is open for dealing business, provided that if no closing price is reported in respect of the relevant Shares on the Hong Kong Stock Exchange or, as the case may be the Alternative Stock Exchange for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not have existed when ascertaining any period of dealing days.

On any adjustment, the relevant Conversion Price, if not an integral multiple of one Hong Kong cent, shall be rounded down to the nearest Hong Kong cent. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than one per cent. of the Conversion Price then in effect. Any adjustment not required to

## TERMS AND CONDITIONS OF THE BONDS

be made, and any amount by which the Conversion Price has not been rounded down, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustment shall be given to Bondholders in accordance with Condition 16 as soon as practicable after the determination thereof.

The Conversion Price may not be reduced so that, on conversion of Bonds, Shares would fall to be issued at a discount to their par value.

Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of an independent investment bank of international repute (acting as expert), selected by the Company and approved in writing by the Trustee, the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by such independent investment bank to be in their opinion appropriate in order to give such intended result. No adjustment will be made to the Conversion Price when Shares or other securities (including rights or options) are issued, offered or granted to employees (including directors) of the Company or any Subsidiary of the Company pursuant to any Employee Share Scheme (as defined in the Trust Deed) (and which Employee Share Scheme is in compliance with the listing rules of the Hong Kong Stock Exchange or, if applicable, those of an Alternative Stock Exchange).

No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of the Shares as referred to in Condition 6(c)(1) above.

The Trustee shall not be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price and will not be responsible to Bondholders for any loss arising from any failure by it to do so.

### **(d) Conversion Price Reset**

If the average of the Closing Prices of the Shares (the *Average Market Price*) for the period of 20 consecutive Trading Days immediately prior to 20 April 2006 (the *Reset Date*) is less than the Conversion Price on the Reset Date (taking into account any adjustments as described in Condition 6(c) which may have occurred prior to the Reset Date), the Conversion Price shall be adjusted on a one-time basis on the Reset Date so that the Average Market Price will become the adjusted Conversion Price with effect from the Reset Date.

Such adjusted Conversion Price shall be rounded upwards, if necessary, to the nearest Hong Kong cent, provided that:

- (i) any such adjustment to the Conversion Price shall be limited such that the adjusted Conversion Price in no event shall be less than 85% of the Conversion Price prevailing on 20 April 2006 (taking into account any adjustments as described in Condition 6(c) which may have occurred prior to the Reset Date);
- (iii) subject to (i) above, the adjustment events set out in Condition 6(c) shall apply, mutatis mutandis, to adjustments hereunder to ensure that appropriate adjustments shall be made to the Conversion Price as so adjusted to reflect any events set out in Condition 6(c);
- (iii) the Conversion Price shall not be reduced below the then par value (currently HK\$0.10 per Share) of the Shares unless under applicable law then in effect the

## TERMS AND CONDITIONS OF THE BONDS

Bonds could be converted at such reduced Conversion Price into legally issued, fully-paid and non-assessable Shares; and

- (iv) for the avoidance of doubt, any such adjustment to the Conversion Price shall only be a downward adjustment.

Any such adjustments shall become effective as of the Reset Date and shall be notified to the Bondholders in accordance with Condition 16 as soon as practicable thereafter.

### **(e) Undertakings**

The Company has undertaken in the Trust Deed, inter alia, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders:

- (i) it will use its best endeavours (a) to maintain a listing for all the issued Shares on the Hong Kong Stock Exchange, and (b) to obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights attaching to the Bonds on the Hong Kong Stock Exchange, and if the Company is unable to obtain or maintain such listing, to use its best endeavours to obtain and maintain a listing for all the issued Shares on an Alternative Stock Exchange as from time to time selected by the Company and approved by the Trustee and will forthwith give notice to the Bondholders in accordance with Condition 16 below of the listing or delisting of the Shares (as a class) by any of such stock exchange; and
- (ii) it will pay the expenses of the issue of, and all expenses of obtaining listing for, Shares arising on conversion of the Bonds.

The Company has also given certain other undertakings in the Trust Deed for the protection of the Conversion Rights.

### **(f) Notice of Change in Conversion Price**

The Company shall give notice to the Bondholders in accordance with Condition 16 of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

## **7. Payments**

### **(a) Principal**

Payment of principal will be made by transfer to the registered account of the Bondholder or by Hong Kong dollar cheque drawn on a bank in Hong Kong mailed to the registered address of the Bondholder in accordance with Condition 16 if it does not have a registered account. Payment of principal will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

References in these Conditions, the Trust Deed and the Agency Agreement to principal in respect of any Bond shall, where the context so permits, be deemed to include a reference to any premium payable thereon.



<b>TERMS AND CONDITIONS OF THE BONDS</b>
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**(b) Registered Accounts**

For the purposes of this Condition, a Bondholder's registered account means the Hong Kong dollar account maintained by or on behalf of it with a bank in Hong Kong, details of which appear on the Register at the close of business on the second business day (as defined below) before the due date for payment, and a Bondholder's registered address means its address appearing on the Register at that time.

**(c) Fiscal Laws**

All payments are subject in all cases to any applicable laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

**(d) Payment Initiation**

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that it not a business day (as defined below), for value on the first following day which is a business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a business day, the immediately following business day) or, in the case of a payment of principal, if later, on the business day on which the relevant Certificate is surrendered at the specified office of an Agent.

**(e) Default Interest and Delay In Payment**

If the Company fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of 5 per cent. per annum from the due date. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year.

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

**(f) Business Day**

In this Condition, *business day* means a day other than a Saturday or Sunday on which commercial banks are open for business in Hong Kong and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered. If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

**8. Redemption, Purchase and Cancellation**

**(a) Maturity**

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Company will redeem each Bond at 100 per cent. of its principal amount on 20 April 2010 (the *Maturity Date*). The Company may not redeem the Bonds at its option prior to that date except as provided in Condition 8(b) or Condition 8(c) below (but without prejudice to Condition 9).

## TERMS AND CONDITIONS OF THE BONDS

### **(b) Redemption at the Option of the Company**

On or at any time after 20 April 2007 and prior to the Maturity Date, the Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders, the Trustee and the Principal Paying Agent (which notice will be irrevocable), redeem all and not some only of the Bonds at a redemption price equal to the Early Redemption Amount on the date specified by the Company in the notice to be the date of redemption (the *Redemption Date*), provided, however, that no such redemption may be made unless:

- (i) the closing price of the Shares (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) for each of the 30 consecutive Trading Days (the last day of such 30-Trading Day period falls within five Trading Days prior to the date upon which notice of such redemption is given) was at least 130 per cent. of the Conversion Price in effect on such Trading Day or
- (ii) at least 90 per cent. in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled.

The *Early Redemption Amount* of each Bond means 100 per cent. of its principal amount on the Redemption Date.

The term *Trading Day* means a day on which the Hong Kong Stock Exchange is open for business.

### **(c) Redemption for Taxation Reasons**

At any time the Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders in accordance with Condition 16 (which notice shall be irrevocable) redeem all, and not some only, of the Bonds at a redemption price equal to the Early Redemption Amount on the Redemption Date if:

- (i) the Company satisfies the Trustee immediately prior to the giving of such notice that the Company has or will become obliged to pay additional amounts as referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of Bermuda or, as the case may be, Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 9 March 2005, and
- (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional amounts were a payment in respect of the Bonds then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Company shall deliver to the Trustee (a) certificate signed by two Directors of the Company stating that the obligation referred to in (i) above cannot be avoided by the Company taking reasonable measures available to it and (b) an opinion of independent legal or tax advisors of recognised standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective) and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Bondholders.

<b>TERMS AND CONDITIONS OF THE BONDS</b>
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**(d) Redemption for Delisting or Change of Control**

Following the occurrence of a Relevant Event (as defined below), the holder of each Bond will have the right at such holder's option, to require the Company to redeem all or some only of that holder's Bonds on the Relevant Event Redemption Date (as defined below) at their Early Redemption Amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (the *Relevant Event Redemption Notice*) together with the Certificate evidencing the Bonds to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Bondholders by the Company in accordance with Condition 16. The *Relevant Event Redemption Date* shall be the 14<sup>th</sup> day after the expiry of such period of 60 days as referred to above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable and the Company shall redeem the Bonds the subject of Relevant Event Redemption Notices delivered as aforesaid on the Relevant Event Redemption Date.

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event which could lead to the occurrence of a Relevant Event has occurred.

The Company shall give notice to Bondholders in accordance with Condition 16 by not later than 14 days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition and shall give brief details of the Relevant Event.

A *Relevant Event* occurs:

- (i) when the Shares cease to be listed or admitted to trading on the Hong Kong Stock Exchange; or
- (ii) when there is a Change of Control.

For the purposes of this Condition 8(d):

*Control* means the right to appoint and/or remove all or the majority of the members of the Company's Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

a *Change of Control* occurs when:

- (i) any Person or Persons acting together acquires Control of the Company if such Person or Persons does not or do not have, and would not be deemed to have, Control of the Company on the Closing Date;
- (ii) the Company consolidates with or merges into or sells or transfers all or substantially all of the Company's assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Company or the successor entity; or

## TERMS AND CONDITIONS OF THE BONDS

- (iii) one or more other Persons acquires the legal or beneficial ownership of all or substantially all of the Company's issued share capital.

*Person* includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal entity) but does not include the Company's Directors or any other governing board and does not include the Company's wholly-owned direct or indirect subsidiaries.

### **(e) Redemption at the Option of the Bondholders**

On 20 April 2007 (the *Put Option Date*), the holder of each Bond will have the right at such holder's option, to require the Company to redeem all or some only of the Bonds of such holder on the Put Option Date at 100 per cent. of their principal amount. To exercise such right, the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the then current form obtainable from the specified office of any Paying Agent (*Put Exercise Notice*) together with the Certificate evidencing the Bonds to be redeemed not earlier than 60 days and not later than 30 days prior to the Put Option Date.

A Put Exercise Notice, once delivered, shall be irrevocable (and may not be withdrawn unless the Company consents to such withdrawal) and the Company shall redeem the Bonds the subject of Put Exercise Notices delivered as aforesaid on the Put Option Date.

### **(f) Purchases**

The Company or any of its Subsidiaries may at any time and from time to time purchase Bonds at any price in the open market or otherwise.

### **(g) Cancellation**

All Bonds which are redeemed, converted or purchased by the Company or any of its Subsidiaries, will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

### **(h) Redemption Notices**

All notices to Bondholders given by or on behalf of the Company pursuant to Condition 8(b) or 8(c) will specify the Conversion Price as at the date of the relevant notice, the Conversion Period, the closing price of the Shares (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange) as at the latest practicable date prior to the publication of the notice, the date for redemption, the manner in which redemption will be effected and the aggregate principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice.

## **9. Taxation**

All payments made by the Company under or in respect of the Trust Deed or the Bonds will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of Bermuda or Hong Kong or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In such event, the Company will pay such additional amounts as will result in the receipt by the Bondholders of

<b>TERMS AND CONDITIONS OF THE BONDS</b>
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the net amounts after such deduction or withholding equal to the amounts which would otherwise have been receivable by them had no such deduction or withholding been required except that no such additional amount shall be payable in respect of any Bond:

- (a) to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with Bermuda (or, as the case may be, Hong Kong) otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond;
- (b) (in the case of a payment of principal) if the Certificate in respect of such Bond is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Certificate for payment on the last day of such period of 30 days,
- (c) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (d) by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union.

For the purposes hereof, *relevant date* means whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and cheques despatched or payment made.

References in these Conditions to principal and premium (if any) shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

#### **10. Events of Default**

The Trustee at its sole discretion may, and if so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject to being indemnified and/or secured by the holders to its satisfaction), give notice to the Company that the Bonds are, and they shall accordingly thereby become, immediately due and repayable at the Early Redemption Amount (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6) if:

- (a) a default is made for more than three days in the payment of any principal or Early Redemption Amount due in respect of the Bonds;
- (b) any failure by the Company to deliver Shares as and when the Shares are required to be delivered following conversion of Bonds or any Cash Settlement Amount;

## TERMS AND CONDITIONS OF THE BONDS

- (c) the Company does not perform or comply with one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after written notice of such default shall have been given to the Company by the Trustee;
- (d) the Company or any of its Subsidiary (other than a dormant Subsidiary) is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or any part of (or of a particular type of) the debts of the Company or any of its Subsidiaries (other than any dormant Subsidiaries); an administrator or liquidator of the Company or any of its Subsidiaries (other than any dormant Subsidiaries) or the whole or any part of the assets and turnover of the Company or any of its Subsidiaries (other than any dormant Subsidiaries) is appointed (or application for any such appointment is made);
- (e) (i) any other present or future indebtedness (whether actual or contingent) of the Company or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes, or becomes capable of being declared, due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (iii) the Company or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (e) have occurred equals or exceeds US\$1,000,000 or its equivalent in any other currency on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantees or indemnity;
- (f) a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against any of the property, assets or turnover of the Company or any of its Subsidiaries (other than any dormant Subsidiaries) and is not discharged or stayed within 30 days;
- (g) an order is made or an effective resolution passed for the winding-up or dissolution or administration of the Company or any of its Subsidiaries (other than any dormant Subsidiaries)(except for a members' voluntary solvent winding-up), or the Company or any of its Subsidiaries (other than any dormant Subsidiaries) ceases or threatens to cease to carry on all or substantially all of its business or operations and except for the purpose of and followed by a reconstruction, amalgamation,

## TERMS AND CONDITIONS OF THE BONDS

reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Bondholders, or (ii) in the case of its Subsidiary, whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Company or another of its Subsidiaries;

- (h) an encumbrancer takes possession or an administrative or other receiver, manager, administrator or other similar officer is appointed, of the whole or any part of the property, assets or turnover of the Company or any of its Subsidiaries (other than dormant Subsidiaries)(as the case may be) and is not discharged within 30 days;
- (i) (i) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Company or any of its Subsidiaries; or (ii) the Company or any of its Subsidiaries is prevented from exercising normal control over all or any substantial part of its property, assets and turnover;
- (j) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Company lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds and the Trust Deed, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Bonds and the Trust Deed admissible in evidence in the courts of Bermuda or England is not taken, fulfilled or done;
- (k) it is or will become unlawful for the Company to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed;
- (l) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs;

provided that, in the case of any such event other than those described in paragraphs (a), (b), (c) (e), (f), (h) and (j), the Trustee shall have certified in writing to the Company that such event is in its opinion materially prejudicial to the interests of Bondholders.

Notwithstanding receipt of any payment after the acceleration of the Bonds, a Bondholder may exercise its Conversion Right by depositing a Conversion Notice with a Conversion Agent or Paying Agent during the period from and including the date of a default notice with respect to an event specified in Condition 10(b) (at which time the Company will notify the Bondholders of the number of Shares per Bond to be delivered upon conversion, assuming all the then outstanding Bonds are converted) to and including the 30<sup>th</sup> business day after such payment.

If any converting Bondholder deposits a Conversion Notice pursuant to this Condition 10 in the business day prior to, or during, a Closed Period, the Bondholder's Conversion Right shall continue until the business day following the last day of the Closed Period, which shall be deemed the Conversion Date, for the purposes of such Bondholder's exercise of its Conversion Right pursuant to this Condition 10.

## TERMS AND CONDITIONS OF THE BONDS

If the Conversion Right attached to any Bond is exercised pursuant to this Condition 10, the Company will deliver Shares (which number will be disclosed to such Bondholder as soon as practicable after the Conversion Notice is given) in accordance with the Conditions, except that the Company shall have twelve business days before it is required to register the converting Bondholder (or its designee) in its register of members as the owner of the number of Shares to be delivered pursuant to this Condition and an additional five business days from such registration date to make payment in accordance with the following paragraph.

If the Conversion Right attached to any Bond is exercised pursuant to this Condition 10, the Company shall, at the request of the converting Bondholder, pay to such Bondholder an amount in Hong Kong dollars (the *Default Cure Amount*), equal to the product of (x) (i) the number of Shares that are required to be delivered by the Company to satisfy the Conversion Right in relation to such converting Bondholder minus (ii) the number of Shares that are actually delivered by the Company pursuant to such Bondholders' Conversion Notice and (y) the Share Price (as defined below) on the Conversion Date; provided that if such Bondholder has received any payment under the Bonds pursuant to this Condition 10, the amount of such payment shall be deducted from the Default Cure Amount.

*Share Price* means the closing price of the Shares as quoted by the Hong Kong Stock Exchange or, as the case may be, Alternative Stock Exchange on the Conversion Date or, if no reported sales take place on such date, the average of the reported closing bid and offered prices, in either case as reported by the Hong Kong Stock Exchange or other applicable securities exchange on which the Shares are listed for such day as furnished by a reputable and independent broker-dealer selected from time to time by the Trustee at the expense of the Company for such purpose.

### **11. Prescription**

Claims in respect of amounts due in respect of the Bonds will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of default interest or premium (if any)) from the relevant date (as defined in Condition 9) in respect thereof.

### **12. Enforcement**

At any time after the Bonds have become due and repayable, the Trustee may, at its sole discretion and without further notice, take such proceedings against the Company as it may think fit to enforce repayment of the Bonds and to enforce the provisions of the Trust Deed, but it will not be bound to take any such proceedings unless (a) it shall have been so requested in writing by the holders of not less than 25 per cent. in principal amount of the Bonds then outstanding or shall have been so directed by an Extraordinary Resolution of the Bondholders and (b) it shall have been indemnified and/or secured to its satisfaction. No Bondholder will be entitled to proceed directly against the Company unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

### **13. Meetings of Bondholders, Modification and Waiver**

#### **(a) Meetings**

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50 per cent. in principal amount of the Bonds for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders



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whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the due date for any payment in respect of the Bonds, (ii) to reduce or cancel the amount of principal, premium, or default interest (including any Early Redemption Amount) or Equivalent Amount payable in respect of the Bonds or changing the method of calculation of the Early Redemption Amount, (iii) to change the currency of payment of the Bonds, (iv) to modify or cancel the Conversion Rights, or (v) to modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 66 per cent., or at any adjourned such meeting not less than 33 per cent. in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting. The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90 per cent. of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

### **(b) Modification and Waiver**

The Trustee may agree, without the consent of the Bondholders, to (i) any modification (except as mentioned in Condition 13(a) above) to, or the waiver or authorisation of any breach or proposed breach of, the Bonds, the Agency Agreement or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any modification to the Bonds or the Trust Deed which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver or authorisation will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modifications will be notified by the Company to the Bondholders as soon as practicable thereafter.

### **(c) Interests of Bondholders**

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, authorisation or waiver) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Company or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders except to the extent provided for in Condition 9 and/or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

## **14. Replacement of Certificates**

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company and such Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

## **15. Further Issues**

The Company may from time to time, without the consent of the Bondholders, create and issue further Bonds having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the Bonds. Such

## TERMS AND CONDITIONS OF THE BONDS

further Bonds may, with the consent of the Trustee, be constituted by a deed supplemental to the Trust Deed.

### **16. Notices**

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar or published in a leading newspaper having general circulation in Hong Kong (which is expected to be *The Standard*) or, if such publication shall not be practicable, in an English language newspaper of general circulation in Asia. Any such notice shall be deemed to have been given on the later of the date of such publication or, if published more than once, on the first date on which publication is made.

### **17. Agents**

The names of the initial Agents and the Registrar and their specified offices are set out below. The Company reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or a replacement Registrar. The Company will at all times maintain (a) a Principal Agent, (b) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any European Directive on the taxation of savings implementing the provisions of the ECOFIN Council Meeting of 26th-27th November 2000 or any law implementing or complying with, or introduced in order to conform, to such Directive, and (c) a Registrar which will maintain the register of Bondholders outside Hong Kong and the United Kingdom. Notice of any such termination or appointment, of any changes in the specified offices of any Agent or the Registrar and of any change in the identity of the Registrar or the Principal Agent will be given promptly by the Company to the Bondholders and in any event not less than 45 days' notice will be given.

### **18. Indemnification**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Company and any entity related to the Company without accounting for any profit.

### **19. Contracts (Rights of Third Parties) Act 1999**

No person shall have any right to enforce any term or condition of the Bonds or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

### **20. Governing Law and Submission to Jurisdiction**

The Bonds, the Trust Deed and the Agency Agreement are governed by, and shall be construed in accordance with, the laws of England. In relation to any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds, the Company has in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England and in relation thereto, has appointed an agent for service of process in the City of London.

## THE GLOBAL CERTIFICATE

*The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Bonds (the "Conditions" or the "Terms and Conditions") set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:*

### **Meetings**

The registered holder (as defined in the Conditions) of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each HK\$10,000 in principal amount of Bonds for which the Global Certificate is issued. The Trustee may allow a person with an interest in Bonds in respect of which the Global Certificate has been issued to attend and speak at a meeting of Bondholders on appropriate proof of his identity and interest.

### **Cancellation**

Cancellation of any Bond by the Company following its redemption, conversion or purchase by the Company will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

### **Trustee's Powers**

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

### **Conversion**

Subject to the requirements of Euroclear and Clearstream, Luxembourg (or any Alternative Clearing System), the Conversion Rights attaching to the Bonds in respect of which the Global Certificate is issued may be exercised by the presentation thereof to or to the order of the Principal Agent of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in such Bonds. Deposit of the Global Certificate with the Principal Agent together with the relevant Conversion Notice(s) shall not be required. The exercise of the Conversion Right shall be notified by the Principal Agent to the Registrar and the holder of the Global Certificate.

### **Payment**

Payments of principal and interest in respect of Bonds represented by the Global Certificate will be made without presentation or if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

### **Notices**

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or the Alternative Clearing System,

## THE GLOBAL CERTIFICATE

notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

### **Bondholder's Redemption**

The Bondholder's redemption options in Conditions 8(d) and 8(e) may be exercised by the holder of the Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise within the time limits specified in the Conditions.

### **Registration of Title**

Certificates in definitive form for individual holdings of Bonds will not be issued in exchange for interests in Bonds in respect of which the Global Certificate is issued, except if either Euroclear or Clearstream, Luxembourg (or any Alternative Clearing System on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

### **Transfers**

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream, Luxembourg and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants.

### **Enforcement**

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, the persons named in a certificate of the holder of the Bonds in respect of which the Global Certificate is issued shall be recognised as the beneficiaries of the trust set out in the Trust Deed, to the extent of the principal amount of their interest in the Bonds set out in the certificate of the holder, as if they were themselves the holders of Bonds in such principal amounts.

## USE OF PROCEEDS

The net proceeds from the issue of the Bonds (excluding the unexercised Optional Bonds), after deduction of commission and administrative expenses, are approximately HK\$1,715,000,000. The proceeds are currently intended to be used by the Company for working capital purposes. The Company has been seeking and exploring, and will continue to seek and explore, investment and business opportunities in Greater China. In the process of doing so, the Company has from time to time come across a wide range of potential investment and business opportunities. However, the Company currently does not have any definitive plans to pursue any of those opportunities. The proceeds or part of the proceeds may be used to finance investments should suitable opportunities arise in the future.

<b>CAPITALISATION AND INDEBTEDNESS</b>
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**Capitalisation and Indebtedness of the Group**

As at the date of this Offering Circular, the Company had an authorised share capital of HK\$500 million consisting of 5 billion ordinary shares of HK\$0.10 each and an issued and fully paid up share capital of approximately HK\$203 million consisting of 2,030,214,000 ordinary shares of HK\$0.10 each.

The following table sets forth the consolidated capitalisation and indebtedness of the Group as at 31 December 2004 and adjusted to give effect to (i) the issue of the Bonds (including the Optional Bonds) and (ii) secured bank and other loans obtained and repaid from 1 January 2005 up to 15 April 2005, being the latest practicable date prior to the printing of this Offering Circular, in the net amount of HK\$1,149 million.

	As at 31 December 2004	
	<u>Actual</u> HK\$ million	<u>As Adjusted</u> HK\$ million
Short-term borrowings	2,283	2,021
Long-term borrowings		
Bank and other borrowings	4,770	6,181
The Bonds to be issued	-	2,000
Shareholders' funds	18,486	18,486
	<hr/>	<hr/>
Total borrowings and capitalisation (excluding minority interests)	25,539	28,688
	<hr/> <hr/>	<hr/> <hr/>

Other than as disclosed above, there has been no material change in the capitalisation of the Group since 31 December 2004.

## DESCRIPTION OF THE GROUP

### Introduction

Chinese Estates Holdings Limited is a public listed company incorporated in Bermuda on 5 June 1989 as an exempted company with limited liability and its Shares are listed on the Hong Kong Stock Exchange (stock code: 127). The Company's principal activity is investment holding and its subsidiaries are principally engaged in property investment and management, property development, brokerage, securities investment and money lending. As at 9 March 2005, the market capitalisation of the Company, based on the VWAP of the Shares of HK\$6.4088 per Share, was approximately HK\$13 billion.

The Group holds interests in property development projects in Hong Kong and the PRC and has a rental property portfolio comprising properties located in Hong Kong and the PRC.

As at the date of this Offering Circular, the Company had an authorised share capital of HK\$500 million consisting of 5 billion ordinary shares of HK\$0.10 each and an issued and fully paid up share capital of approximately HK\$203 million consisting of 2,030,214,000 ordinary shares of HK\$0.10 each.

As at the date of this Offering Circular, the aggregate deemed interests of Mr. Joseph Lau, Luen-hung and Mr. Thomas Lau, Luen-hung are approximately 72.62 per cent.. No other shareholder holds an interest of 10 per cent. or more in the issued share capital of the Company.

### History

Listed below are the major developments of the Group:

1978	The forerunner of the Group was a company called Evergo Holdings Company Limited (formerly Evergo Industrial Enterprise Limited) ("Evergo") which was established by Mr. Joseph Lau, Luen-hung. Evergo was engaged in the manufacture and sale of electronic products, ceiling fans, kerosene heaters, bug killers and lighting fixtures.
1983	Evergo was listed on the Hong Kong Stock Exchange on 16 August 1983.
1985	Evergo diversified its business to investment holding and property management services and reduced its operation in manufacturing and sale of electronic products.
1986	Evergo acquired 43% of the issued shares of Chinese Estates, Limited ("CEL"), a HK-listed company which was engaged in real estate investment and development, securities investment and financial services. Through this ownership, Evergo held 10.7% of HK-listed China Entertainment and Land Investment Company, Limited ("China Entertainment"), the owner of the Entertainment Building in Central.
1987	China Entertainment acquired two HK-listed companies, Paul Y. Construction Company, Limited ("Paul Y. Construction") and China Entertainment Strategic Investments Limited ("CESIL") which were engaged in building construction and securities investment respectively.

**DESCRIPTION OF THE GROUP**

1988	The Company began to diversify its property interests to the PRC through the participation in the development of Oriental Arts Building Complex in Beijing.
1989	The five listed companies within the Group shifted their domicile overseas after a series of group reorganisation and schemes of arrangement and the listings were replaced by their new holding companies. As a result, CEL, Evergo and China Entertainment became wholly-owned subsidiaries of the Company, Evergo International Holdings Company Limited ("Evergo International") and China Entertainment and Land Investments Holdings Limited ("China Entertainment Holdings") respectively. Paul Y. Construction and CESIL became wholly-owned subsidiaries under the ownership of Paul Y. Holdings Company Limited ("Paul Y. Holdings") and Superford Financial Holdings Limited ("Superford") respectively.
1990	Paul Y. Holdings and Superford merged and became wholly-owned subsidiaries of Paul Y. International Group Limited ("Paul Y. International") which replaced the listings of the two former companies.
1991	The Group's construction business was sold.
1992	Paul Y. International was privatised by China Entertainment Holdings in February and concentrated its activities on property investment and development.  China Entertainment Holdings was privatised by the Company in September to consolidate the assets of both companies.  The Group expanded its property interests in the PRC.
1993	The Company rationalised the group structure by a merger with its then controlling shareholder, Evergo International, turning Evergo International into a wholly-owned subsidiary of the Company. After a series of restructurings, the various listed vehicles within the Group were consolidated and privatised into only one listed vehicle, namely, Chinese Estates Holdings Limited.
1996	The Company reclassified its interest in the PRC by demerging Evergo China Holdings Limited ("Evergo China") from the Group by a successful separate listing of Evergo China in November. Immediately after the listing, Evergo China remained as a subsidiary of the Group and became the Group's PRC property vehicle for property development and investment in the PRC. Evergo China was principally engaged in property development and investment, investment holding and financing in major or emerging cities in the PRC.
1998	The Group, through a 50:50 joint venture vehicle, acquired around 64.29% interest in a HK-listed company, The Kwong Sang Hong International Limited ("Kwong Sang Hong").

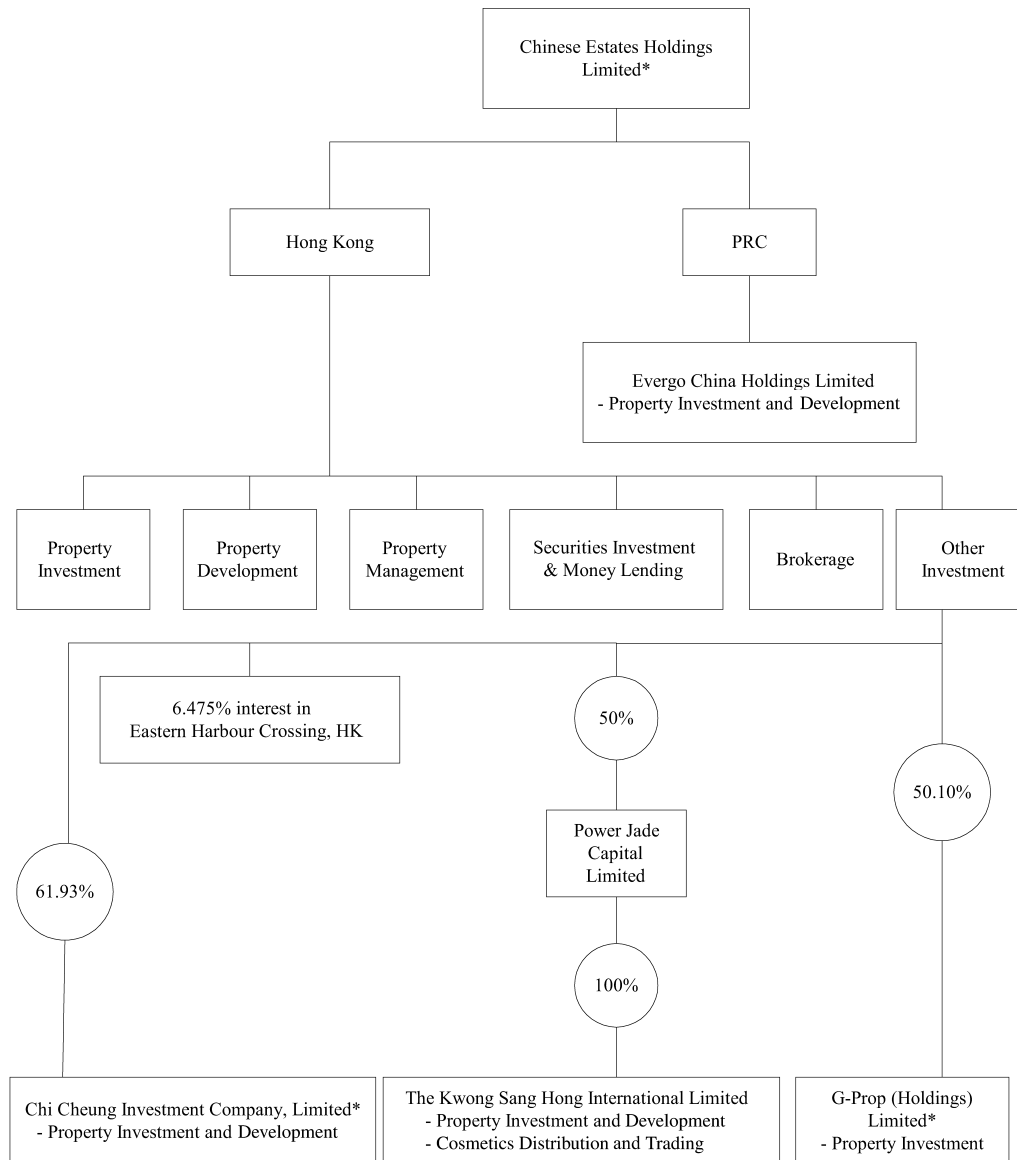


<b>DESCRIPTION OF THE GROUP</b>
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2000	<p>The interest held by the 50:50 joint venture vehicle in Kwong Sang Hong was reduced to 53.52% in July after three share placements.</p> <p>The Group acquired 66.89% interest in a HK-listed property company, Chi Cheung Investment Company, Limited ("Chi Cheung") in November.</p>
2001	<p>The interest held by the Group in Chi Cheung increased to 72.68% in May after the creditors of Chi Cheung exercised their put options pursuant to the scheme of arrangement of Chi Cheung and a share placement.</p> <p>Evergo China was privatised by the Company in November.</p>
2002	<p>The Group further acquired a total of 7.6% direct interest in Kwong Sang Hong in January and February 2002.</p>
2003	<p>The interest held by the Group in Chi Cheung decreased to 71.94% in November after an asset transaction with Chi Cheung and a special dividend by way of distribution in specie by the Company.</p> <p>The Group acquired 57.56% interest in a HK-listed company, G-Prop (Holdings) Limited ("G-Prop") in November. The acquisition and restructuring of G-Prop was completed in January 2004.</p>
2004	<p>The Group further acquired 2.38% direct interest in Chi Cheung in January 2004. The interest held by the Group in Chi Cheung was increased to 74.32%.</p>
2005	<p>The privatisation of Kwong Sang Hong was completed in February 2005.</p> <p>The interest held by the Group in Chi Cheung was reduced to 61.93% in February after share placement of Chi Cheung.</p> <p>The interest held by the Group in G-Prop was reduced to 50.10% in February after share placement of G-Prop.</p>

## DESCRIPTION OF THE GROUP

### Group Structure



\* Listed on the Hong Kong Stock Exchange

### Strategy

The Group will continue to seek to capture opportunities to acquire premier investment properties and to replenish its land bank. The Group will also seek to further enhance the value of its properties through continuous redevelopment and commercialization programs. At the same time, the Group will focus on producing mid to high-end development projects and to identify lucrative business opportunities in the Greater China, aiming at bringing long-term value to its shareholders.

<b>DESCRIPTION OF THE GROUP</b>
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**Business**

The following table sets forth, for the periods indicated, the contribution to turnover of the Group, from its principal business activities:

	<u>Years ended 31 December</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	HK\$'000	HK\$'000	HK\$'000
<i>Turnover</i>			
Property development and trading	713,200	16,000	1,872
Property leasing	695,381	668,934	653,666
Money lending	349	7,536	17,206
Listed securities investment	3,835,274	1,831,548	50,772
Unlisted securities investment, investment holding and brokerage	13,153	7,514	5,764
	<hr/>	<hr/>	<hr/>
Total turnover	5,257,357	2,531,532	729,280
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Over 90% of the activities of the Group, for the periods indicated, were carried out in Hong Kong and over 90% of the assets of the Group were located in Hong Kong. Accordingly, a geographical analysis is not presented.

***Property Development***

**Hong Kong Property Development**

In general, the Group's development projects have been progressing well.

Parc Palais, the residential development project situated at King's Park, Kowloon (10% interest) was completed in July 2004. The development has a total gross floor area of around 904,200 square feet. As at 31 December 2004, around 83% of the units were sold.

Indihome, a 56-storey development situated at Tsuen Wan (34.36% interest\*) comprises of 960 service apartments with restaurants, shops, car parking spaces and full clubhouse facilities with a swimming pool. The total gross floor area of the whole development is about 585,620 square feet. The development is currently under construction and is scheduled to be completed in the third quarter of 2005. Pre-sale of the development commenced in November 2004. As at 31 December 2004, about 63% of the units were sold.

Miami Crescent, the residential villa complex development project situated at Sheung Shui (34.36% interest\*), comprises of seventy-eight 3-storey detached and semi-detached houses with a total gross floor area of approximately 153,860 square feet and was completed in the first quarter of 2005. Occupation permit was issued in January 2005. It is expected that the certificate of compliance will be issued in the second quarter of 2005. The development will be offered for pre-sale in the second quarter of 2005.

\* The Group's interest in each of the projects has increased to 50% upon the completion of the privatisation of Kwong Sang Hong in February 2005.

## DESCRIPTION OF THE GROUP

Superstructure works for Mount Beacon, the development project situated at the junction of Cornwall Street and Tat Chee Avenue (33 1/3% interest), commenced in August 2004. The development, with a total gross floor area of around 301,200 square feet, is scheduled for completion in late 2005. Pre-sale is scheduled to commence in mid 2005.

Superstructure works for Phase 1 of the Tai Yuen Street/Wanchai Road redevelopment project undertaken with the Urban Renewal Authority (75% direct interest<sup>#</sup>) are in progress. Upon completion, Phase 1 of the project will comprise of three high-rise residential towers with approximately 652 residential units and a total gross floor area of approximately 510,960 square feet. In February 2004, planning approval was obtained to change the use of Phase 2 of the project from office to residential. Phase 2 will consist of a high-rise residential tower with approximately 252 residential units and a total gross floor area of approximately 159,727 square feet. Phase 1 is scheduled for completion in the second half of 2005 and will be offered for pre-sale in the third quarter of 2005.

Site formation and foundation works for the development at No. 55 Conduit Road (70% interest) commenced in February 2003. This residential project has a total gross floor area of approximately 87,800 square feet and is scheduled for completion in 2007.

The Group's tender for the Urban Renewal Authority redevelopment project at Reclamation Street and Arran Street in Mongkok (100% interest) was accepted in December 2004. This composite development has total gross floor area of approximately 52,000 square feet and is scheduled for completion in 2007.

In 2004, the Company, together with Sino Land Company Limited and The Wharf (Holdings) Limited formed a consortium, Sunny Development Limited, and submitted a proposal to the Hong Kong Government to undertake the development of the West Kowloon Cultural District project, a commercial/residential/cultural development on a 40-hectare site in West Kowloon.

The Group is constantly on the lookout for quality property development opportunities.

### ***Property Investment***

#### **Hong Kong Property Investments**

Rental from investment properties continues to be one of the main sources of income. For the year ended 31 December 2004, the gross rental income increased 4% to HK\$695 million, as compared with the corresponding period last year. The increase in gross rental income was primarily attributable to the recovery of Hong Kong's economy and the contribution by the two properties acquired in 2003, Tung Ying Building in Tsim Sha Tsui and Tung Sang Building in Wanchai.

The overall occupancy rate for the Group's retail portfolio remained at around 95%, primarily attributable to the Group's retail properties which are located at prime locations such as Causeway Bay, Wanchai and Tsim Sha Tsui. Retail rents have also increased primarily due to an improvement in our tenants' business.

<sup>#</sup> The Group's interest in the project has increased to 87.5% upon the completion of the privatisation of Kwong Sang Hong in February 2005.

## DESCRIPTION OF THE GROUP

The office property market has recovered since the fourth quarter of 2003, and continued to improve during 2004. For the year ended 31 December 2004, the occupancy rates for Windsor House, MassMutual Tower, Harcourt House and Tung Ying Building were approximately 97%, 89%, 92% and 86%, respectively, bringing the occupancy rate of our office portfolio to 92%.

Occupancy rates and rentals for Hong Kong's retail and office property markets are expected to continue to improve.

### **PRC Property Investment**

Hong Kong New World Tower, Shanghai (34.65% interest) comprises of approximately 1,470,000 square feet of office and retail space. Around 87% and 71% of the office section and retail section, respectively, were let as at 31 December 2004.

Hilton Beijing (50% interest) maintained an average occupancy rate of 88% and a gross operating profit of HK\$46 million for the year ended 31 December 2004. The guest rooms are currently undergoing renovation works which are scheduled to complete in mid 2005. The Group currently plans to expand the hotel building by the addition of executive rooms and other ancillary hotel facilities. Design of the hotel expansion has been approved by the Beijing Municipal Commission of Urban Planning. Building plans for the hotel expansion are being finalised and will be submitted to the relevant authorities for approval.

Oriental Place (50% interest), a 10-storey office building situated next to Hilton Beijing, is fully let as at 31 December 2004.

The 79 retail outlets in Lowu Commercial Plaza, Shenzhen (100% interest), comprise of approximately 29,000 square feet and are fully let as at 31 December 2004.

Peregrine Plaza, Shanghai (34.36% interest\*) is located at Huaihai Zhong Road, one of the most prestigious commercial districts in Shanghai. This 23-storey office and shopping complex has a total gross floor area of 267,100 square feet. Apart from 313 square metres of office space which has been sold, the remaining portion of the property is held by the Group as investment properties. The occupancy rates of the office and retail units were 99% and 94%, respectively, for the year ended 31 December 2004.

Other than properties in Hong Kong and the PRC, the Group also holds properties in the United Kingdom.

\* The Group's interest in each of the projects has increased to 50% upon the completion of the privatisation of Kwong Sang Hong in February 2005.

<b>DESCRIPTION OF THE GROUP</b>
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The following table sets forth the Group's major properties and property development rights as at 31 December 2003 as disclosed in the 2003 Annual Report of the Company (updated status will be disclosed in the 2004 Annual Report which will be available by the end of April 2005):

**PROPERTIES IN HONG KONG**

**Properties held for investment**

Location	Inland lot number	Approx. gross floor area (square feet)	Usage	Group's interest as at 31 December 2003
1. <b>Windsor House</b> 311 Gloucester Road Causeway Bay Hong Kong (including 154 carpark spaces)	Remaining Portions of Inland Lot Nos. 7717 and 7718 Section A of Inland Lot No. 781 and Sections A and C of Inland Lot No. 782	817,962	Commercial	100%
2. <b>Harcourt House</b> (excluding 7 <sup>th</sup> , 8 <sup>th</sup> , 9 <sup>th</sup> , 22 <sup>nd</sup> , 23 <sup>rd</sup> , 25 <sup>th</sup> , 26 <sup>th</sup> , 27 <sup>th</sup> floors, rooms 1004 and 1805) 39 Gloucester Road Wanchai, Hong Kong	594, 282/842, 100 <sup>th</sup> shares of and in Inland Lot No. 8573	272,850	Commercial	100%
3. <b>MassMutual Tower</b> 38 Gloucester Road Wanchai, Hong Kong (including 55 carpark spaces on lower basement and basement)	Inland Lot Nos. 3287 and 6936	345,459	Commercial	100%
4. <b>Tung Ying Building</b> 100 Nathan Road and 19A Granville Road Tsimshatsui, Kowloon	The remaining portion of Kowloon Inland Lot No. 6022	389,173	Commercial	100%
5. <b>Silvercord</b> Shops, cinemas, restaurants and food court on basement lower ground floor ground floor (excluding shop no. 38) 1 <sup>st</sup> floor (excluding shop no. 39) 2 <sup>nd</sup> floor (excluding shop no. 41) whole of 3 <sup>rd</sup> floor and carpark spaces nos. 1, 2, 6, 7, 8, 9, 21, 24, 25, 26, 29, 30, 34 and 35 on basement 30 Canton Road, Tsimshatsui Kowloon, Hong Kong	4,160/13,615 <sup>th</sup> shares of and in Kowloon Inland Lot No. 10656	253,362	Commercial	100%

<b>DESCRIPTION OF THE GROUP</b>
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Location	Inland lot number	Approx. gross floor area (square feet)	Usage	Group's interest as at 31 December 2003
<p>6. <b>Causeway Place</b> Shops M1, M2, N1, N2, O and P on ground floor Units N2, O and P on mezzanine floor whole of 1<sup>st</sup> and 2<sup>nd</sup> floors portions of exterior walls of 1<sup>st</sup> and 2<sup>nd</sup> floors Flats C, I, J, K, L, N, O, P, Q on 3<sup>rd</sup> floor and nine corresponding flat roofs and Flat H on 3<sup>rd</sup> floor Hong Kong Mansion Nos. 1-1L Yee Wo Street 1-7 Paterson Street 2-10 Great George Street Causeway Bay, Hong Kong</p>	<p>34/353<sup>rd</sup> shares of and in Inland Lot No. 7742</p>	<p>48,308</p>	<p>Commercial/ Residential</p>	<p>100%</p>
<p>7. <b>Excelsior Plaza</b> Shops nos. 1 to 3 and 6 to 12, 21, 23 and 24 on ground floor, Shop nos. 6 to 11 on 1<sup>st</sup> floor of Yee On Building and Chee On Building, Unit G on 2<sup>nd</sup> floor, Shop no. 32 (part) on 2<sup>nd</sup> floor and naming right on ground floor, 1<sup>st</sup> floor and 2<sup>nd</sup> floor of Yee On Building, Shop no. 31 on 1<sup>st</sup> floor, Shop no. 32 (part) on ground floor, 1<sup>st</sup> floor and 2<sup>nd</sup> floor and external walls and naming right on ground floor, 1<sup>st</sup> floor and 2<sup>nd</sup> floor, and Main Roof of Chee On Building, Shop no. 32 (part) on 2<sup>nd</sup> floor, external walls and naming right on ground floor, 1<sup>st</sup> floor and 2<sup>nd</sup> floor of Annex Land Building 24-26 East Point Road Hong Kong</p>	<p>19,398/25,261<sup>st</sup> of 41/465<sup>th</sup> parts or shares of and in Subsection 1 of Section G of Marine Lot No. 52 and the Extension Thereto and Section A of Subsection 1 of Section A of Marine Lot No. 52 and the Extension Thereto</p> <p>17,845/40,057<sup>th</sup> of 86/504<sup>th</sup> parts or shares of and in Section B of Subsection 1 of Section A of Marine Lot No. 52 and the Extension Thereto and Subsection 3 of Section G of Marine Lot No. 52 and the Extension Thereto, The Remaining Portion of Inland Lot No. 469 and The Remaining Portion of Section A of Inland Lot No. 470</p> <p>1,415/19,032<sup>nd</sup> parts or shares of and in Subsection 2 of Section G of Marine Lot No. 52 and the Extension Thereto</p>	<p>52,413</p>	<p>Commercial</p>	<p>100%</p>

<b>DESCRIPTION OF THE GROUP</b>
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Location	Inland lot number	Approx. gross floor area (square feet)	Usage	Group's interest as at 31 December 2003
8. <b>Wanchai Computer Centre</b> Shops nos. 2 and 3 on ground floor 150 Hennessy Road and the Commercial Accommodation on 1 <sup>st</sup> and 2 <sup>nd</sup> floors 130 Hennessy Road Wanchai, Hong Kong	3,199/70,500 <sup>th</sup> shares of and in Inland Lot No. 8562	36,710	Commercial	100%
9. <b>Tung Sang Building</b> No. 20 Johnston Road Wanchai, Hong Kong	Marine Lot No. 296	91,216	Commercial/ Residential	100%
10. <b>Chic Castle</b> Shop no. 7 on ground floor whole of 1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>rd</sup> floors (including external wall of 3 <sup>rd</sup> floor) and whole roof 602-608 Nathan Road Kowloon, Hong Kong	55/320 <sup>th</sup> shares of and in Remaining Portion of Kowloon Inland Lot No. 7061 Remaining Portion of Kowloon Inland Lot No. 7062 and Remaining Portion of Kowloon Inland Lot No. 7063	19,797	Commercial	75%
11. <b>Dang Fat Mansion</b> Whole of 1 <sup>st</sup> to 3 <sup>rd</sup> floors portions on roof portion on the upper roof and the exterior walls of 1 <sup>st</sup> to 3 <sup>rd</sup> floors No. 18 Tai Ho Road Shop no. 4A on ground floor Nos. 10-16 & 20 Tai Ho Road Nos. 8-12 Dang Fat Street Nos. 7-11 On Wing Street Tsuen Wan New Territories Hong Kong	39,389/89,471 <sup>st</sup> of 4/256 <sup>th</sup> and 48/256 <sup>th</sup> shares of and in Tsuen Wan Town Lot No. 206	18,996	Commercial	100%
12. <b>Various Portions of No. 1 Hung To Road</b> Kwun Tong Kowloon, Hong Kong	626,263/800,000 <sup>th</sup> equal and undivided shares of and in Kwun Tong Inland Lot No. 415	591,966	Industrial	24.53%



<b>DESCRIPTION OF THE GROUP</b>
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Location	Inland lot number	Approx. gross floor area (square feet)	Usage	Group's interest as at 31 December 2003
13. <b>Tuen Mun Centre</b> Theatre Portion of ground floor 1 <sup>st</sup> to 3 <sup>rd</sup> floors flat roof on 4 <sup>th</sup> floor portion of external walls of theatre, shops nos. 14 and 16 on ground floor 2-8 Wo Ping Path 7-35 Yan Ching Street Tuen Mun, New Territories Hong Kong	125/951 <sup>st</sup> equal and undivided shares of and in Castle Peak Town Lot No. 57	24,633	Commercial	36.80%
14. <b>Gemstar Tower</b> Units A, B and C on 3 <sup>rd</sup> floor, whole of 4 <sup>th</sup> floor, unit C on 5 <sup>th</sup> floor, unit H on 6 <sup>th</sup> floor, unit C on 13 <sup>th</sup> floor and all carpark spaces on 1 <sup>st</sup> to 3 <sup>rd</sup> floors (excluding carpark nos. L01, L02, P01 and P02 on ground floor, L07 and L08 on 1 <sup>st</sup> floor and L25 and L26 on 2 <sup>nd</sup> floor) No. 23 Man Lok Street Hung Hom, Kowloon Hong Kong	223,537/691,680 <sup>th</sup> equal and undivided shares of and in Hung Hom Inland Lot No. 545	105,103	Godown	73.59%

### Properties held for sale

Location	Inland lot number	Approx. gross floor area (square feet)	Usage	Group's interest as at 31 December 2003
1. <b>Manhattan Avenue</b> No. 255 Queen's Road Central and 30-38 Hillier Street Hong Kong	Subsections 1 and 2 of Section A Remaining Portion of Sections A, E and F and Remaining Portion of Inland Lot No. 99	42,314	Commercial/ Residential	100%
2. <b>8A-8F Shiu Fai Terrace</b> Hong Kong	Sections Q and R of Inland Lot No. 2302 and Extensions Thereto	107,552	Residential	50%

<b>DESCRIPTION OF THE GROUP</b>
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Location	Inland lot number	Approx. gross floor area (square feet)	Usage	Group's interest as at 31 December 2003
3. <b>City 151</b> 145-151A Kau Pui Lung Road Kowloon, Hong Kong	Kowloon Inland Lot No. 8152	45,564	Commercial/ Residential	100%
4. <b>Gemstar Tower</b> Units C, D, E, F, G and H on 7 <sup>th</sup> floor units A to G on 16 <sup>th</sup> floor No. 23 Man Lok Street Hung Hom, Kowloon Hong Kong	57,477/691,680 <sup>th</sup> equal and undivided shares of and in Hung Hom Inland Lot No. 545	64,976	Godown	73.59%

### Properties under development

Location	Inland lot number	Stage of completion	Estimated completion date	Approx. site area (sq. ft.)	Estimated gross floor area (sq. ft.)	Usage	Group's interest as at 31 December 2003
1. <b>55 Conduit Road</b> Hong Kong	Remaining Portion of Section A of Inland Lot No. 2138 Subsection 1 of Section A of Inland Lot No. 2138 and Inland Lot No. 2612	Site Formation and Foundation in progress	Early 2006	36,198	87,780	Residential	70%
2. <b>Tai Yuen Street/ Wanchai Road</b> Wanchai Hong Kong	Unevenly bounded by Queen's Road East Wanchai Road Cross Street and Tai Yuen Street	Phase I Basement works in progress (Site A) Superstructure works in progress (Site B)	Phase I in the 3 <sup>rd</sup> quarter of 2005 and Phase II in 2008	72,988	Phase I: 510,752  Phase II: 159,727	Residential/ Commercial	83.59% (notes) (75% by the Group and 25% by Kwong Sang Hong)

*Notes:*

1. *It refers to the percentage of interest of property development rights in a consortium which engaged Urban Renewal Authority ("URA") (the successor to Land Development Corporation) in the project.*
2. *The 83.59% attributable interest of property development rights includes the indirect interest of approximately 8.59% held through the Group's interest in Kwong Sang Hong which has a 25% direct interest in the consortium.*

<b>DESCRIPTION OF THE GROUP</b>
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3. *In this joint venture with URA, the consortium finances both the land costs and construction costs, and is entitled to claim for reimbursements for land costs and construction costs so incurred together with the share of any development profits with URA in accordance with the terms and conditions of the joint development agreement.*
4. *The estimated gross floor area is based on the latest approved residential use of Site C by the Town Planning Board in February 2004.*

	Location	Inland lot number	Stage of completion	Estimated completion date	Approx. site area (sq. ft.)	Estimated gross floor area (sq. ft.)	Usage	Group's interest as at 31 December 2003
3.	<b>Pare Palais King's Park</b> Junction of Princess Margaret Road and Wylie Road Kowloon Hong Kong	Kowloon Inland Lot No. 11118	Superstructure works in progress	Mid 2004	387,569	904,176	Residential	10%
4.	<b>Junction of Cornwall Street and Tat Chee Avenue</b> Kowloon Hong Kong	Kowloon Inland Lot No. 6196	Site Formation and Foundation works in progress	End of 2005	158,229	301,174	Residential	33.33%
5.	<b>Nos. 124-142 Yeung Uk Road</b> <b>Tsuen Wan</b> New Territories Hong Kong	Tsuen Wan Town Lot No. 406 (formerly known as Tsuen Wan Town Lot No. 1)	Superstructure works in progress	End of 2005	60,095	585,620	Service apartments/ Commercial/ Retail	34.36% (100% owned by Kwong Sang Hong)
6.	<b>Lot 1861 in D.D. 100 Fan Kam Road</b> Sheung Shui New Territories Hong Kong	Lot 1861 in D.D. 100 Fan Kam Road	Superstructure works in progress	4 <sup>th</sup> quarter 2004	386,212	153,856	Residential	34.36% (100% owned by Kwong Sang Hong)

#### Other property

	Location	Approx. gross floor area (square feet)	Usage	Group's interest as at 31 December 2003
1.	<b>No. 31 Barker Road</b> Hong Kong	13,600	Residential	100%

<b>DESCRIPTION OF THE GROUP</b>
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## PROPERTIES IN THE PRC

### Properties held for investment

	<b>Location</b>	<b>Approx. gross floor area (square feet)</b>	<b>Usage</b>	<b>Category of the lease</b>	<b>Group's interest as at 31 December 2003</b>
1.	<b>Hilton Beijing and the hotel extension</b> 1 Dongfang Road Dongsanhuan Road North Chaoyang District, Beijing	498,684	Hotel/Retail/ Commercial	Medium	50%
2.	<b>Oriental Place</b> 9 Dongfang Road East Dongsanhuan Road North Chaoyang District, Beijing	103,685	Office	Medium	50%
3.	<b>Lowu Commercial Plaza</b> 79 retail shops on 1 <sup>st</sup> Floor Jianshe Road, Luohu District Shenzhen, Guangdong Province	29,416	Retail	Medium	100%
4.	<b>Peregrine Plaza</b> 1325 Huaihai Middle Road and 1 Baoxing Road Xuhui District, Shanghai	263,705	Office/Retail	Medium	34.36% (100% owned by Kwong Sang Hong)

### Other property

	<b>Location</b>	<b>Approx. gross floor area (square feet)</b>	<b>Usage</b>	<b>Group's interest as at 31 December 2003</b>
1.	<b>Hong Kong New World Tower</b> Lot No. 6 Huaihai Middle Road Luwan District, Shanghai	1,470,000	Office/Retail	34.65%

### Property Management

The Group owns a well-established property management company engaging in management of different types of properties including residential, industrial, commercial and shopping arcades.

### Brokerage

The Group owns a Hong Kong stock brokerage house which is relatively small in size. In the past, repurchase of the Company's shares was mainly transacted through this in-house brokerage firm.

## DESCRIPTION OF THE GROUP

### **Securities Investment**

The Group allocates a portion of its resources, mainly surplus funds, for investment in listed equities, bonds, equity-related products and foreign exchange contracts. An Executive Director, supported by a team of dedicated staff, is responsible for the decision-making and risk management in respect of these securities investments. Professional advice is sought from time to time from international brokerage houses. Securities investment in the past few years comprised less than 10% of the Group's total assets.

### **Money Lending**

As part of the marketing strategies for launching properties developed or owned by the Group, the Group provides second mortgage financing or vendor financing to end-users and purchasers. In addition, the Group may provide short-term financing to corporate clients or high net worth individuals in certain circumstances.

### **Insurance**

The Group is covered by insurance policies arranged with reputable insurance agents which cover loss of rental, fire, flood, riot, strike, malicious damage, other material damage to property and development sites, business interruption and public liability.

The Group believes that its properties are covered with adequate insurance provided by reputable independent insurance companies in the relevant jurisdiction and with commercially reasonable deductibles and limits on coverage. Notwithstanding the Group's insurance coverage, damage to the Group's buildings, facilities, equipment, or other properties as a result of occurrences such as fire, floods, water damage, explosion, power loss, typhoons and other natural disasters could nevertheless have a material adverse effect on the Group's financial condition and results of operations.

### **Government Regulations**

The operations of the Group are subject to various laws and regulations in the jurisdictions in which it operates.

The success of the Group's strategy to expand its existing properties, acquire new properties or to open newly-constructed properties is contingent upon, among other things, receipt of all required licences, permits and authorisations, including local and use permits, building and zoning permits, environmental, health and safety permits. Changes or concessions required by regulatory authorities could also involve significant costs and delay or prevent completion of the construction or opening of a project or could result in the loss of an existing licence. The Group's property development business may be affected by governmental regulations, including any changes in buildings, planning and environment protection regulations and delays or failure to obtain the requisite construction, occupancy and pre-sale approvals and the certificates of compliance.

The Company believes that the Group is in compliance in all material respects with government regulations currently in effect. The Group has not experienced significant problems with government regulations with regard to these issues, and is not aware of any pending government legislation that might have a material adverse effect on its property or hotel operations.

<b>DESCRIPTION OF THE GROUP</b>
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### Legal Proceedings

Neither the Company nor any of its subsidiaries are involved in any litigation which would have a material adverse effect on the business or financial position of the Group.

### Employees

During the year ended 31 December 2004, the Group employed a total of 230 staff members (excluding approximately 210 estate management staff members employed by the Group's estate management company, Perfect World Company Limited).

Employees were remunerated on the basis of their performance, experience and in accordance with prevailing industry practice. Remuneration packages comprised salary and a year-end discretionary bonus based on market conditions and individual performance. The Executive Directors continued to review employees' contributions and to provide them with incentives and flexibility to encourage employees' increased commitment and enhance performance.

The Company considers its relations with its employees to be good.

### Principal Subsidiaries/Associates

As at 31 December 2004, the Company's principal subsidiaries and associates, which, in the opinion of the Directors of the Company, principally affected the results or assets of the Group for the year ended 31 December 2004, are as follows (all subsidiaries are indirectly held and wholly owned private limited companies except otherwise stated):

<u>Name of subsidiary</u>	<u>Place of incorporation/ operation</u>	<u>Principal activities</u>	<u>Issued and fully paid ordinary share capital except otherwise stated</u>
Baharica Limited	Hong Kong	Property investment	HK\$20
Billion King Limited	British Virgin Islands	Securities investment	US\$1
Billion Up Limited	British Virgin Islands	Investment holding	US\$1
Boria Enterprises Limited (57.56% owned subsidiary)	Hong Kong	Property investment	HK\$20
Cardin Factory Limited	Hong Kong	Property development and trading	HK\$2
Chi Cheung Investment Company, Limited <sup>#</sup> (74.32% owned subsidiary)	Hong Kong	Investment holding	HK\$2,823,059.87
Chinese Estates (Harcourt House) Limited	Hong Kong	Property investment	HK\$200
Chinese Estates, Limited (direct subsidiary)	Hong Kong	Investment holding and provision of management services	HK\$1,000
Chinese Estates (Tung Ying Building) Limited	Hong Kong	Property investment	HK\$2

<b>DESCRIPTION OF THE GROUP</b>
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<u>Name of subsidiary</u>	<u>Place of incorporation/ operation</u>	<u>Principal activities</u>	<u>Issued and fully paid ordinary share capital except otherwise stated</u>
Chinese Estates (Windsor House) Limited	Hong Kong	Property investment	HK\$100 and non-voting deferred share capital of HK\$2
Conduit Road Development Limited (70% owned subsidiary)	Hong Kong	Property development	HK\$10,000
Dollar Union Limited (75% owned subsidiary)	Hong Kong	Property development and trading	HK\$100
Easy Focus Limited	British Virgin Islands	Securities investment	US\$1
Evergo China Holdings Limited	Bermuda/Hong Kong	Investment holding	HK\$100,775,869.10
Evergo Holdings Company Limited	Hong Kong	Investment holding	HK\$1,000
Fair City Limited	Hong Kong	Property investment	HK\$2
Fair Eagle Estate Agency Limited	Hong Kong	Property investment	HK\$10,000
Fair Eagle Finance Credit Limited	Hong Kong	Securities margin financier	HK\$10,000,000
Fair Eagle Futures Company Limited	Hong Kong	Broking and dealing in trade futures contracts	HK\$5,000,000
Fair Eagle Securities Company Limited	Hong Kong	Broking and dealing in listed securities	HK\$8,000,000
Fame Winner Limited	Hong Kong	Property development and trading	HK\$2
G-Prop (Holdings) Limited <sup>#</sup> (57.56% owned subsidiary)	Bermuda/Hong Kong	Investment holding	HK\$6,912,578
Geneva Developments Limited	Hong Kong	Property investment	HK\$2
Global Young Holdings Ltd.	British Virgin Islands	Property investment	US\$1
Grandhall Secretarial Services Limited	Hong Kong	Secretarial services	HK\$10,000
Great Empire International Ltd.	British Virgin Islands	Investment holding and securities investment	US\$1
Great King Limited (57.56% owned subsidiary)	Hong Kong	Property investment	HK\$2
Great Will Limited	British Virgin Islands	Property investment	US\$1
Groupluck Company Limited	Hong Kong	Money lending	HK\$2

<b>DESCRIPTION OF THE GROUP</b>
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<u>Name of subsidiary</u>	<u>Place of incorporation/ operation</u>	<u>Principal activities</u>	<u>Issued and fully paid ordinary share capital except otherwise stated</u>
Grow Wealth Property Investment Limited (Corporate name: Grow Wealth Company Ltd)	Republic of Liberia/ Hong Kong	Property investment	1 registered and/or bearer share without par value
Hero Alliance Limited	Hong Kong	Property investment	HK\$2
Hillsborough Holdings Limited	British Virgin Islands/ Hong Kong	Property investment	US\$1
Host Fortune Limited	Hong Kong	Property investment	HK\$2
Jade Art Development Limited	Hong Kong	Property investment	HK\$2
Luckpoint Investment Limited	Hong Kong	Securities investment	HK\$2
Million Point Limited	British Virgin Islands	Investment holding	US\$1
Modern City Investment Limited (75% owned subsidiary)	Hong Kong	Property investment	HK\$4
Oriental Ford Finance Limited	Hong Kong	Money lending	HK\$2
Paul Y. Holdings Company Limited (direct subsidiary)	Cayman Islands/ Hong Kong	Investment holding	HK\$70,715,005.70
Paul Y. (New Tunnel) Limited	Hong Kong	Investment holding	HK\$2
Perfect World Company Limited	Hong Kong	Estate management	HK\$10,000
Pinecrest International Limited	British Virgin Islands	Investment holding	US\$1
Pioneer Time Investment Limited	British Virgin Islands/ Hong Kong	Property investment	US\$1
Shantou Royal Garden Company Limited <sup>###</sup> (74.32% owned subsidiary)	PRC	Property development	RMB34,504,540*
Silver Step Limited	Hong Kong	Property development	HK\$2
Silvercord Limited	Hong Kong	Property investment	HK\$14,600
Smart Ocean Limited	British Virgin Islands	Investment holding	US\$1
Sun Power Investments Ltd.	British Virgin Islands/ Hong Kong	Securities investment	US\$1
Sunny Ocean Investments Limited (Corporate name: Sunny Ocean Limited)	British Virgin Islands/ Hong Kong	Property investment	US\$1
View Success Investments Limited (74.32% owned subsidiary)	Hong Kong	Property investment and trading	HK\$2
Viewide Properties Limited	British Virgin Islands/ Hong Kong	Property investment	US\$1

<sup>#</sup> Listed company in Hong Kong.

<sup>###</sup> Foreign-owned enterprise.

\* Paid up registered capital.



<b>DESCRIPTION OF THE GROUP</b>
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<u>Name of associate</u>	<u>Place of incorporation/ operation</u>	<u>Issued and fully paid ordinary share capital except otherwise stated</u>	<u>Percentage of equity attributable indirectly to the Group</u>	<u>Principal activity</u>
Direct Win Development Limited	Hong Kong	HK\$900	33 $\frac{1}{3}$ %	Property development and trading
Earn Elite Development Limited	Hong Kong	HK\$2	37.16%	Property investment
Ever Sure Investments Limited	Hong Kong	HK\$2	50%	Property development and trading
Finedale Industries Limited	Hong Kong	HK\$9,999	24.77%	Property investment
Grand Make International Limited	British Virgin Islands	US\$100	35%	Investment holding
Healthy Point Limited	Hong Kong	HK\$2 and non-voting preferred share capital of HK\$1	37.16%	Property investment
Oriental Arts Building Co. Ltd.	PRC	US\$24,920,000*	50%	Property investment and hotel operation
Power Jade Capital Limited <sup>#</sup> (Corporate name: Power Jade Limited)	British Virgin Islands/ Hong Kong	US\$20	50%	Investment holding
Shanghai New World Huai Hai Property Development Co. Ltd.	PRC	US\$75,000,000*	34.65%	Property investment
Strongplus Limited	British Virgin Islands	US\$2	50%	Investment holding
The Kwong Sang Hong International Limited <sup>Δ</sup>	Bermuda/ Hong Kong	HK\$383,959,766.40	34.36%	Investment holding

\* Paid up registered capital.

# Power Jade Capital Limited holds 53.52% of the entire issued share capital of Kwong Sang Hong.

Δ Privatised in February 2005.

## RECENT DEVELOPMENTS AND PROSPECTS

*The following discussion should be read in conjunction with the audited and unaudited consolidated financial statements of the Company and the related notes thereto.*

### **Financial Condition and Liquidity**

Property development and investment activities are capital intensive and the Group has contracted substantial commitments over the next few years. The Group has historically funded its capital needs primarily through internally generated funds from operations (including pre-sale deposits and recurring rental income), supplemented by external lines of credit, term loans and, to a lesser extent, equity issues. Working capital and capital expenditure requirements in the year ended 31 December 2004 were financed principally through cash flow from operating activities, existing cash balances and borrowings.

The business activities of the Group are funded by bank borrowing, secured loans and cash generated from operating activities. As at 31 December 2004, the Group's total bank and other borrowings were HK\$7,053 million, in which (i) HK\$2,283 million were payable within one year and HK\$4,770 million were payable after one year and (ii) all borrowings were secured. The Group's borrowings are primarily denominated in Hong Kong dollars. At the same date, the Group had approximately HK\$18,486 million in shareholders' funds. The gearing ratio (total bank and other borrowings to shareholders' funds) was approximately 38.2 per cent.. Although the Group has significant capital commitments for its projects under development, the Group believes that, with existing cash and cash equivalent balances, together with the net proceeds of the Bonds, the proceeds from pre-sales of its development properties and bank financing, it will have adequate sources of capital for its continuing operations.

### **Prospects**

The overall economy has shown signs of recovery, as demonstrated by increasing consumption power and the decreasing unemployment rate. The Group is optimistic about the property market, and believes that both capital and rental values in all sectors of the property market will continue their upward trend. The Group believes that quality development projects in Hong Kong are still attractive due to the scarce supply of land in Hong Kong.

Looking ahead, the Group will continue to seek to capture opportunities to acquire premier investment properties and to replenish its land bank. The Group will also seek to further enhance the value of its properties through continuous redevelopment and commercialization programs. At the same time, the Group will focus on producing mid to high-end development projects and to identify lucrative business opportunities in the Greater China region, aiming at bringing long-term value to its shareholders.

## DIRECTORS AND MANAGEMENT

The members of the Board of Directors of the Company as at the date of this Offering Circular are as follows:

### **Executive Directors:**

Thomas Lau, Luen-hung (*Chairman*)

Joseph Lau, Luen-hung

### **Non-executive Director:**

Amy Lau, Yuk-wai

### **Independent Non-executive Directors:**

Koon, Wing-yee

Cheng, Kwee

Chan, Kwok-wai

The biographies of the Executive Directors, Non-executive Director, Independent Non-executive Directors and the Senior Management at the date of the Offering Circular are as follows:

### **Executive Directors**

#### **Thomas Lau, Luen-hung**

Mr. Thomas Lau, Luen-hung (“Mr. Lau”), aged 51, is the Chairman and an Executive Director of the Company. He is also the chairman and an executive director of Chi Cheung and United Metals Holdings Limited, both of which are companies whose shares are listed on the Hong Kong Stock Exchange. He is also an executive director of Lifestyle International Holdings Ltd. (“Lifestyle”) whose shares are listed on the Hong Kong Stock Exchange. He has been with the Group since 1985 and has over 27 years of experience in corporate finance, manufacturing and property investment and development. Mr. Lau is the brother of Mr. Joseph Lau, Luen-hung.

#### **Joseph Lau, Luen-hung**

Mr. Joseph Lau, Luen-hung (“Mr. Lau”), aged 53, is an Executive Director of the Company. He is also an executive director of Chi Cheung and a non-executive director of Lifestyle. He has over 29 years of experience in corporate finance, manufacturing and property investment and development. Mr. Lau is the brother of Mr. Thomas Lau, Luen-hung.

### **Non-executive Director**

#### **Amy Lau, Yuk-wai**

Ms. Amy Lau, Yuk-wai (“Ms. Lau”), aged 52, obtained a bachelor degree in science in 1974 and a doctor degree in dental surgeon from the University of Toronto in Canada in 1978. Ms. Lau is a non-executive director of Lifestyle. She is the sister of Mr. Joseph Lau, Luen-hung and Mr. Thomas Lau, Luen-hung, the Executive Directors of the Company.

## DIRECTORS AND MANAGEMENT

### Independent Non-executive Directors

#### **Koon, Wing-yee**

Mr. Koon, Wing-yee (“Mr. Koon”), aged 48, is a co-founder of Easyknit International Holdings Limited and has been involved in the textile industry for more than 26 years. He is the executive director of Easyknit International Holdings Limited and Asia Alliance Holdings Limited, both of which are companies listed on the Hong Kong Stock Exchange. He was awarded “Young Entrepreneur Award” in December 1994 for his outstanding achievement as a successful entrepreneur.

#### **Cheng, Kwee**

Mr. Cheng, Kwee (“Mr. Cheng”), aged 46, is the majority shareholder and managing director of Business Securities Limited. Business Securities Limited (broker no.2860) is a Hong Kong Stock Exchange participant. Mr. Cheng has over 20 years of experience in securities and financial services. He also runs property development and investment business in China, Singapore, Thailand, Malaysia and Cambodia. Mr. Cheng did not hold any other directorship in listed public companies in the last three years.

#### **Chan, Kwok-wai**

Mr. Chan, Kwok-wai (“Mr. Chan”), aged 46, is a member of the Hong Kong Securities Institute and an associate member of the Australian Society of Certified Practising Accountants. Mr. Chan is currently a director of High Progress Consultants Limited. He is also an independent non-executive director of Junefield Department Store Group Limited, China Investments Holdings Limited and Tern Properties Company Limited, the shares of all of which are listed on the Hong Kong Stock Exchange.

### SENIOR MANAGEMENT

#### **Lam, Kwong-wai**

Mr. Lam, Kwong-wai (“Mr. Lam”), aged 49, joined the Group in 1989 and is the Group Financial Controller and Company Secretary of the Company and Chi Cheung. He is also the Group Financial Controller of G-Prop. Mr. Lam is a qualified accountant and holds a Master Degree in Business Administration. He has over 27 years of experience in auditing, finance and accounting.

#### **Alec Kong, Chi-ming**

Mr. Alec Kong, Chi-ming (“Mr. Kong”), aged 41, joined the Group in 1994 and is the Senior Manager of China Business Department of the Group. Mr. Kong holds a Bachelor Degree and a Master Degree in Business Administration. He is responsible for the overall management and development of the Group’s projects in China and has over 14 years of experience in the property field of the PRC.

#### **Hazel Lai, Ming-yan**

Ms. Hazel Lai, Ming-yan (“Ms. Lai”), aged 36, joined the Group in 2000 and is the Quantity Surveying Manager. Ms. Lai is a Registered Professional Surveyor and holds a Master Degree in Construction and Real Estate. She is also a member of the Hong Kong Institute of Surveyors and the Chartered Institute of Arbitrators. Ms. Lai is responsible for the quantity surveying affairs of the Group and has over 14 years of relevant experience.

<b>SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS</b>
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**Substantial Shareholders' Interests in Shares**

As at 31 December 2004, so far as are known to the Directors, the following parties (other than a Director or chief executive of the Company) were recorded in the register kept by the Company under Section 336 of the Securities and Futures Ordinance ("SFO") as being directly or indirectly interested or deemed to be interested in 5% or more of the issued share capital of the Company:

<b>Name of Shareholder</b>	<b>No. of Shares Held (ordinary share)</b>	<b>Capacity</b>	<b>Percentage of Issued Share Capital</b>
Credit Suisse Trust Limited	1,000,000,000 (note 1)	Trustee and Beneficiary of a Trust	49.26%
Global King Ltd.	1,000,000,000 (note 1)	Trustee	49.26%
GZ Trust Corporation	275,143,456 (note 2)	Trustee and Interest in Controlled Corporation	13.55%
Joseph Lau Luen Hung Investments Limited	275,143,456 (note 2)	Beneficial Owner	13.55%
Ip, Sok-wun	199,207,187 (note 3)	Founder of Discretionary Trust	9.81%
J.P. Morgan Trust Company (Bahamas) Limited	199,207,187 (note 4)	Trustee and Interest in Controlled Corporation	9.81%
Sunny Trend Limited	199,207,187 (note 4)	Beneficial Owner	9.81%
Li Ka-shing	174,660,000 (notes 5 & 6)	Founder of Discretionary Trusts and Interest of Controlled Corporations	8.60%
Li Ka-Shing Unity Trustcorp Limited	174,660,000 (notes 5 & 6)	Trustee and Beneficiary of a Trust	8.60%
Li Ka-Shing Unity Trustee Corporation Limited	174,660,000 (notes 5 & 6)	Trustee and Beneficiary of a Trust	8.60%
Li Ka-Shing Unity Trustee Company Limited	174,660,000 (notes 5 & 6)	Trustee	8.60%
Cheung Kong (Holdings) Limited	174,660,000 (notes 5 & 6)	Interest of Controlled Corporations	8.60%
Hutchison Whampoa Limited	174,660,000 (note 5)	Interest of Controlled Corporations	8.60%

<b>SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS</b>
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Name of Shareholder	No. of Shares Held (ordinary share)	Capacity	Percentage of Issued Share Capital
Hutchison International Limited	174,660,000 (note 5)	Interest of a Controlled Corporation	8.60%
Primetek Holdings Limited	174,660,000 (note 5)	Beneficial Owner	8.60%

*Notes:*

1. *Credit Suisse Trust Limited as trustee of a discretionary trust held units in a unit trust of which Global King Ltd. was the trustee and therefore was regarded as interested in the same parcel of Shares held by Global King Ltd.. These Shares were the same parcel of 1,000,000,000 Shares of the Company referred to in "Other Interests" of Mr. Joseph Lau, Luen-hung under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph (I) below.*
2. *GZ Trust Corporation as trustee of another discretionary trust held the entire issued share capital of Joseph Lau Luen Hung Investments Limited and therefore was regarded as interested in the same parcel of Shares held by Joseph Lau Luen Hung Investments Limited. These Shares were the same parcel of 275,143,456 Shares of the Company referred to in "Other Interests" of Mr. Joseph Lau, Luen-hung under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph (I) below.*
3. *These Shares were indirectly owned by a discretionary trust of which Ms. Ip, Sok-wun was the founder. These Shares were the same parcel of the Shares referred to in "Other Interests" of Mr. Thomas Lau, Luen-hung under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph (I) below.*
4. *J.P. Morgan Trust Company (Bahamas) Limited as trustee of a discretionary trust owned the entire issued share capital of Sunny Trend Limited. By virtue of the SFO, J.P. Morgan Trust Company (Bahamas) Limited was deemed to have interest in the 199,207,187 Shares held by Sunny Trend Limited. These shares were the same parcel of Shares referred to in "Other Interests" of Mr. Thomas Lau, Luen-hung under "Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations" as disclosed in paragraph (I) below and in the above note 3.*
5. *Primetek Holdings Limited ("Primetek") is a wholly-owned subsidiary of Hutchison International Limited ("HIL"), which in turn is a wholly-owned subsidiary of Hutchison Whampoa Limited ("HWL"). By virtue of the SFO, HWL and HIL are deemed to be interested in the 174,660,000 Shares of the Company held by Primetek.*
6. *Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUT1"). TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of Cheung Kong (Holdings) Limited ("CKH"). Subsidiaries of CKH are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL.*

*In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 holds units in the UT1.*

*By virtue of the SFO, Mr. Li Ka-shing being the settlor and being regarded as a founder of DT1 and DT2 for the purpose of the SFO, each of TDT1, TDT2, TUT1 and CKH was deemed to be interested in the 174,660,000 Shares of the Company held by Primetek.*

<b>SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS</b>
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All the interests stated above represent long positions. The percentage shown was the number of Shares the relevant shareholder was interested expressed as a percentage of the number of issued Shares as at 31 December 2004. As at 31 December 2004, no short positions were recorded in the register kept by the Company under section 336 of the SFO.

**Directors' and Chief Executives' Interests in the Securities of the Company and Associated Corporations**

As at 31 December 2004, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules were as follows:

**(I) The Company**

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	275,143,456	(1)	Other Interests	62.81%
	<u>1,000,000,000</u>	(2)	Other Interests	
	<u>1,275,143,456</u>			
Thomas Lau, Luen-hung	199,207,187	(3)	Other Interests	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 family members of Mr. Joseph Lau, Luen-hung were eligible beneficiaries.*
- (2) *These Shares were held by a unit trust of which 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 family members of Mr. Joseph Lau, Luen-hung were eligible beneficiaries.*
- (3) *These Shares were indirectly owned by a discretionary trust of which Mr. Thomas Lau, Luen-hung and his certain family members were eligible beneficiaries.*

**(II) Associated Corporations of the Company**

**Chi Cheung**

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	209,811,186	(1)	Interest in Controlled Corporation	74.32%

<b>SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS</b>
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**Kwong Sang Hong\***

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	586,672,047	(2)	Interest in Controlled Corporation	61.12%

*\*Privatised in February 2005*

**G-Prop**

Name of Director	Number of Shares (ordinary share)	Note	Capacity	Percentage of Issued Share Capital
Joseph Lau, Luen-hung	397,858,761	(3)	Interest in Controlled Corporation	57.56%

*Notes:*

- (1) *Mr. Joseph Lau, Luen-hung, by virtue of his 62.81% interest in the share capital of the Company as disclosed in paragraph (1) above, was deemed to be interested in 209,811,186 shares of Chi Cheung held directly by Billion Up Limited, a wholly-owned subsidiary of Lucky Years Ltd. which in turn was a wholly-owned subsidiary of the Company.*
- (2) *Mr. Joseph Lau, Luen-hung, by virtue of his 62.81% interest in the share capital of the Company as disclosed in paragraph (1) above, was deemed to be interested in 586,672,047 shares of Kwong Sang Hong held indirectly by the Company. The Company was interested in 586,672,047 shares of Kwong Sang Hong of which 72,926,000 shares were held by Good System Investment Limited, a wholly-owned subsidiary of the Company. The other 513,746,047 shares were held by Power Jade Capital Limited which was 50% owned by Gold Castle Capital Ltd., a wholly-owned subsidiary of the Company.*
- (3) *Mr. Joseph Lau, Luen-hung, by virtue of his 62.81% interest in the issued share capital of the Company as disclosed in paragraph (1) above, was deemed to be interested in 397,858,761 shares of G-Prop under the provisions of the SFO. The Company was interested in 397,858,761 shares of G-Prop of which 170,000,000 shares, 113,818,911 shares, 37,162,165 shares and 76,877,685 shares were issued shares respectively held by Million Point Limited ("Million Point"), Paul Y. Holdings Company Limited ("Paul Y."), Great Empire International Ltd. ("Great Empire") and Luckpoint Investment Limited ("Luckpoint").*

*The Company was deemed to be interested in the 170,000,000 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Chinese Estates, Limited, which owned the entire issued share capital of Cosmos Success Limited which in turn owned the entire issued share capital of Million Point.*

*The Company was also deemed to be interested in the 113,818,911 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Paul Y..*

*The Company was also deemed to be interested in the 37,162,165 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of Paul Y., which owned the entire issued share capital of Goldstance Group Limited, which in turn owned the entire issued share capital of Great Empire.*

*The Company was also deemed to be interested in the 76,877,685 shares of G-Prop by virtue of the SFO as the Company owned the entire issued share capital of China Entertainment and Land Investment Company, Limited, which in turn owned the entire issued share capital of Luckpoint.*



## **SUBSTANTIAL SHAREHOLDERS' AND DIRECTORS' INTERESTS**

All the interests stated above represent long positions. The percentage shown was the number of shares the relevant Director was interested expressed as a percentage of the number of issued shares as at 31 December 2004.

Saved as disclosed above, none of the other Directors and chief executives of the Company had or were deemed under the SFO to have any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as at 31 December 2004.

During the year ended 31 December 2004, none of the Directors and chief executives of the Company nor their spouses or children under 18 years of age were granted or had exercised any right to subscribe for any securities of the Company or any of its associated corporations.

## DESCRIPTION OF THE SHARES

*Set out below is certain information concerning the Shares and a summary of certain provisions of the Company's Bye-laws and certain other information concerning the Company. Such summary does not purport to be complete and is qualified in its entirety by reference to the Bye-laws.*

### **General Meetings and Voting Rights**

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other meeting in that year and shall specify the meeting as such in the notices calling it; and not more than 15 months shall elapse between the date of one annual general meeting of the Company and that of the next. The Directors may, whenever they think fit, convene a special general meeting. The members may in certain circumstances requisition a special general meeting.

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of Shares, at any general meeting on a show of hands every member of the Company who is present in person or by authorised representative shall have one vote, and on a poll every member present in person or by authorised representative or by proxy shall have one vote for each Share of which he is the holder and which is fully paid up.

At any general meeting a resolution put to the vote of the meeting 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 duly demanded.

### **Directors**

The number of Directors shall be not less than two.

The Directors shall have power from time to time and at any time to appoint any person to be a Director either to fill a casual vacancy or as an addition to the existing Board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by special resolution remove any Director before the expiration of his period of office and may by ordinary resolution appoint another person in his place.

There is no shareholding qualification for Directors.

No Director or intended Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director is in any way interested be capable on that account of being avoided, nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or of the fiduciary relationship thereby established, provided that such Director shall forthwith disclose the nature of his interest in any contract or arrangement in which he is interested as required by and subject to the provisions of the Companies Act 1981 of Bermuda (as amended) (the "Companies Act").

## DESCRIPTION OF THE SHARES

### **Alteration of Capital**

The Company in general meeting may, from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- (a) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- (b) cancel any shares which at the date of passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled; and
- (c) sub-divide its existing shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association of the Company, subject nevertheless to the provisions of the Companies Act.

The Company may by special resolution reduce its share capital or any share premium account or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law.

### **Variation of Rights of Existing Shares or Classes of Shares**

If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided for by the terms of issue of the shares of that class) may, subject to the provisions of the Companies Act, be varied with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum at such meeting (other than an adjourned meeting) shall be two persons at least holding or representing by proxy one-third in nominal value of the issued shares of that class and that any holder of shares of the class present in person (or, in the case of a holder being a corporation, present by its duly authorized representative) or by proxy may demand a poll.

### **Transfer of Shares**

Subject to such of the restrictions of the Bye-laws as may be applicable, any member of the Company may transfer all or any of his Shares which may be effected by transfer in writing in the usual common form or in such other form as the Directors may accept and may be under hand only.

The instrument of transfer of a Share shall be executed by or on behalf of the transferor and the transferee, and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register in respect thereof.

The Directors may refuse to register any transfer of any Share (not being a fully paid up share) on which the Company has a lien.

## DESCRIPTION OF THE SHARES

### **Power for the Company to Purchase its own Shares**

Subject to the Companies Act, any applicable requirements imposed from time to time by the Hong Kong Stock Exchange and the Securities and Futures Commission of Hong Kong or by any other relevant regulatory authority, the power contained in the memorandum of association for the Company to purchase its shares shall be exercisable by the Directors upon such terms and subject to such conditions as they think fit.

### **Dividends and other Methods of Distributions**

Subject to the Companies Act and the Bye-laws, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board. No dividend shall be paid otherwise than out of profits available for distribution.

Whenever the Board or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid or that shareholders entitled to such dividend shall be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

### **Procedure on Liquidation**

Subject to the Companies Act, if the Company shall be wound up (whether the liquidation is voluntary, under supervision or by the court) the liquidator may, with the authority of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether or not the assets shall consist of property of one kind or shall consist of properties of different kinds and may for such purpose set such value as he deems fair upon any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator with the like authority shall think fit, and the liquidation of the Company may be closed and the Company dissolved, but so that no contributor shall be compelled to accept any shares in respect of which there is a liability.

### **Pre-emption Rights**

The Bye-laws do not contain any pre-emptive rights in respect of the issue of shares. However, the listing agreement between the Company and the Hong Kong Stock Exchange provides that the Directors may not, without the prior approval of the Company in general meeting, exercise any power of the Company to allot shares otherwise than under an offer made pro rata by the Company to its shareholders. As a matter of practice, the Company adopts in each year a general mandate authorising the Directors to allot and issue and otherwise dispose of shares, during a specified period, up to the level, currently 20 per cent. of the issued share capital in issue at the time of passing the resolution, permitted by the Listing Rules without the requirement for any such authority. Such a mandate was given at the annual general meeting of the Company's Shareholders on 18 May 2004 which can be utilised at any time up until the Company's next annual general meeting.

<b>MARKET PRICE INFORMATION</b>
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The Shares have been listed on the Hong Kong Stock Exchange since 1983. The table below sets forth the closing prices and the daily trading volume of the Shares on the Hong Kong Stock Exchange for the periods indicated:

	<b>Closing Share Price</b>			<b>Total Trading Volume</b>
	<b>High HK\$</b>	<b>Low HK\$</b>	<b>End of Period HK\$</b>	<b>('000 Shares)</b>
<b>2000</b>				
First Quarter.....	1.659	1.161	1.217	105,517
Second Quarter.....	1.143	0.654	0.839	116,860
Third Quarter.....	1.217	0.830	0.848	137,721
Fourth Quarter.....	0.876	0.728	0.802	120,110
<b>2001</b>				
First	1.060	0.774	0.783	104,258
Second Quarter.....	0.876	0.691	0.783	105,746
Third Quarter.....	0.783	0.535	0.553	66,072
Fourth Quarter.....	0.737	0.544	0.664	33,197
<b>2002</b>				
First Quarter.....	0.728	0.618	0.618	13,563
Second Quarter.....	0.691	0.581	0.581	20,608
Third Quarter.....	0.802	0.516	0.793	75,666
Fourth Quarter.....	1.180	0.765	0.922	73,110
<b>2003</b>				
First Quarter.....	1.097	0.959	1.023	187,225
Second Quarter.....	1.392	0.830	1.309	247,168
Third Quarter.....	2.627	1.290	2.443	91,505
Fourth Quarter.....	3.050	2.673	2.800	205,416
<b>2004</b>				
First Quarter.....	5.400	3.025	5.400	223,169
Second Quarter.....	5.500	2.700	4.000	449,014
Third Quarter.....	5.100	3.975	4.650	166,860
Fourth Quarter.....	5.550	4.400	5.250	127,140

**Source: Bloomberg**

<b>EXCHANGE RATES</b>
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The HK dollar is freely convertible into other currencies (including the US dollar). Since 17 October 1983, the HK dollar has been linked to the US dollar at the rate of US\$1.00 to HK\$7.80. The central element in the arrangements which give effect to the link is that by agreement between the Hong Kong government and three of the Hong Kong banknote issuing banks, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank (Hong Kong) Limited and Bank of China (Hong Kong) Limited, certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for the banknotes issued, are issued and redeemed only against payment in US dollars, at the fixed exchange rate of US\$1.00 to HK\$7.80. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent US dollars at the fixed rate of exchange.

The market exchange rate of the HK dollar against the US dollar continues to be determined by the forces of supply and demand in the foreign exchange market. However, against the background of the fixed rate which applies to the issue of Hong Kong currency in the form of banknotes, as described above, the market exchange rate has not deviated significantly from the level of HK\$7.80 to US\$1.00. Exchange rates between the HK dollar and other currencies are influenced by the linked rate between the US dollar and the HK dollar.

The following table sets forth, for each of the years indicated, the low, average, high and period-end noon buying rates in New York City for cable transfers, in Hong Kong dollars per US dollar, derived from Datastream:

Year	Noon Buying Rate (HK\$ per US\$)			
	Low	Average	High	Period End
<b>2001</b>				
First Quarter .....	7.7990	7.7999	7.8003	7.8003
Second Quarter .....	7.7983	7.7996	7.8003	7.8000
Third Quarter .....	7.7984	7.7998	7.8003	7.7996
Fourth Quarter .....	7.7970	7.7994	7.8004	7.7980
<b>2002</b>				
First Quarter .....	7.7970	7.7994	7.8000	7.8000
Second Quarter .....	7.7990	7.7998	7.8095	7.8000
Third Quarter .....	7.7996	7.8002	7.8080	7.7998
Fourth Quarter .....	7.7980	7.7992	7.8000	7.7988
<b>2003</b>				
First Quarter .....	7.7987	7.7993	7.8001	7.7995
Second Quarter .....	7.7980	7.7992	7.7998	7.7984
Third Quarter .....	7.7444	7.7945	7.7999	7.7445
Fourth Quarter .....	7.7085	7.7563	7.7692	7.7640

<b>EXCHANGE RATES</b>
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Year	Low	Noon Buying Rate (HK\$ per US\$)		Period End
		Average	High	
<b>2004</b>				
First Quarter .....	7.7632	7.7783	7.7980	7.7930
Second Quarter .....	7.7870	7.7973	7.8010	7.8000
Third Quarter .....	7.7970	7.7997	7.8008	7.7984
Fourth Quarter.....	7.7698	7.7799	7.7990	7.7723

**Source: Datastream**

## DIVIDENDS

Subject to the Companies Act and the Bye-laws of the Company, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Board of Directors of the Company.

The table below sets out certain statistics on ordinary dividends paid or to be paid on Shares in respect of the years indicated:

Year ended 31 December	Interim Ordinary Dividend per Share	Final Ordinary Dividend per Share	Total Ordinary Dividend per Share	Interim Ordinary Dividend HK\$ million	Final Ordinary Dividend HK\$ million	Total Ordinary Dividend HK\$ million
2001	Nil	Nil	Nil	Nil	Nil	Nil
2002	Nil	Nil	Nil	Nil	Nil	Nil
2003 (Note 1)	HK5 cents	HK12 cents	HK17 cents	109.5	253.2	362.7
2004 (Note 2)	HK8.5 cents	HK11 cents	HK19.5 cents	172.858	223.324	396.182

*Note:*

- (1) *In order to maintain sufficient public float of Chi Cheung, the Directors of the Company declared a special dividend of HK\$107.083 million to the shareholders of the Company by way of a distribution in specie in form of new share of HK\$0.01 each in Chi Cheung ("New Shares"), which would be received by the Company upon completion of the asset transaction (the "Distribution"). Mr. Joseph Lau, Luen-hung and Mr. Thomas Lau, Luen-hung had agreed not to take up their entitlement of New Shares under the Distribution. As such the remaining shareholders of the Company would receive New Shares in a ratio of one New Share for approximately 8.75 Shares in the Company.*
- (2) *Final dividend of HK\$223.324 million (HK11 cents per share) has been proposed by the Directors of the Company on 11 April 2005 and is subject to approval by the shareholders of the Company in general meeting.*



## TAXATION

*The following summary of certain tax consequences of the purchase, ownership and disposition of Bonds and Shares is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds or Shares and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of Bonds should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of Bonds and Shares.*

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bonds under the laws of their country of citizenship, residence or domicile.

### **Bermuda**

#### *Tax*

In Bermuda, there are no taxes payable by the Company on profits, income or dividends, nor is there any capital gains tax, estate duty or death duty. The Company is required to pay an annual government fee (the "Government Fee"), which is determined on a sliding scale by reference to the Company's authorised share capital and share premium account, with the minimum fee being BD\$1,780 and the maximum BD\$27,825 (the BD\$ is treated at par with the US\$). The Government Fee is payable at the end of January in every year and is based on the authorised share capital and share premium account as they stood at 31 August in the preceding year.

The Bermuda Government has enacted legislation under which the Minister of Finance is authorised to give an assurance to an exempted company or a partnership that, in the event of there being enacted in Bermuda any legislation imposing tax computed on profits or income or computed on any capital asset, gain or appreciation, then the imposition of any such tax shall not be applicable to such entities or any of their operations. In addition, there may be included an assurance that any such tax or any tax in the nature of estate duty or inheritance tax, shall not be applicable to the shares, debentures or other obligations of such entities. This assurance has been obtained by the Company for a period ending 28 March 2016.

#### *Stamp duty*

The law relating to stamp duties has been fundamentally changed as a result of the enactment of certain legislation that came into force on 1 April 1990. Stamp duty is no longer chargeable in respect of the incorporation, registration or licensing of an exempted company, nor, subject to certain minor exceptions, on their transactions. Accordingly, no stamp duty will be payable on the increase in or the issue or transfer of the share capital of the Company.

### **Hong Kong**

#### *Withholding Tax*

No withholding tax in Hong Kong is payable on payments of principal (including Early Redemption Amounts) in respect of the Bonds.

No tax is payable in Hong Kong by withholding or otherwise in respect of payments of dividends on the Shares.

## TAXATION

### *Profits Tax*

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal, conversion or redemption of the Bonds where such sale, disposal, conversion or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Bonds will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- (a) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (b) a corporation carrying on a trade, profession or business in Hong Kong; or
- (c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Shares where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

### *Stamp Duty*

No Hong Kong stamp duty will be chargeable upon the issue, transfer or conversion of a Bond.

No Hong Kong stamp duty will be chargeable upon the issue of the Shares. Hong Kong stamp duty is however payable on any purchase and sale of Shares for as long as the transfer thereof is required to be registered in Hong Kong. The duty is charged on each of the purchaser and the seller at the ad valorem rate of 0.1 per cent. of the consideration for, or (if greater) the value of, the Shares bought and sold. In other words, a total of 0.2 per cent. is currently payable on a typical sale and purchase transaction of Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5. Where a sale or purchase of Shares registered on a Hong Kong share register is effected by a person who is not resident in Hong Kong and any stamp duty payable thereon is not paid, the relevant instrument of transfer (if any) is chargeable with such duty in default and the transferee is liable to pay such duty.

### **Proposed European Union Directive on the Taxation of Savings Income**

The Council of the European Union has adopted a new directive regarding the taxation of savings income. Subject to a number of important conditions being met, it is proposed that Member States will be required from 1 July 2005 to provide to the tax authorities of other Member States details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments unless during such period they elect otherwise.

## SUBSCRIPTION AND SALE

The Company has entered into a subscription agreement with Deutsche Bank AG, Hong Kong Branch (the "Lead Manager"), dated 9 March 2005 (the "Subscription Agreement"), pursuant to which, and subject to certain conditions contained in the Subscription Agreement, the Company agreed to sell to the Lead Manager, and the Lead Manager agreed to subscribe for, the aggregate principal amount of the Bonds.

The Lead Manager initially proposes to subscribe for the Bonds at a purchase price equal to the offer price indicated on the cover page less a combined management and underwriting commission and selling concession in aggregate of 2 per cent. of the principal amount of the Bonds subscribed.

The Company has also granted the Lead Manager an option, which may be exercised by the Lead Manager in whole or in part and on one or more occasions, at any time on or before the 30th day after the Closing Date, to subscribe for up to an additional HK\$500,000,000 in aggregate principal amount of the Bonds. Such option was exercised in part in the principal amount of HK\$250,000,000 by the Lead Manager on 18 April 2005.

The Company has agreed in the Subscription Agreement that neither the Company nor any of its subsidiaries or affiliates over which it exercises management or voting control, nor any person acting on its or their behalf will, for a period from 9 March 2005 up to 90 days after the Closing Date (and, if any Optional Bonds are issued, for a period of 90 days after the last day on which the Optional Bonds are issuable under the Subscription Agreement (an "Option Closing Date")), without the prior written consent of the Lead Manager (such consent not to be unreasonably withheld), issue, offer, sell, contract to sell, pledge or otherwise dispose of (or publicly announce any such issuance, offer, sale or disposal), any Shares or securities convertible or exchangeable into or exercisable for Shares or warrants or other rights to purchase Shares or any security or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares (whether or not such contract is to be settled by delivery of Shares or such other securities, in cash or otherwise) save for Shares issued pursuant to the conversion provisions of the Bonds or pursuant to obligation in existence at the date of the Subscription Agreement, which has been disclosed to the Lead Manager.

In addition, each of Mr. Joseph Lau, Luen-hung and Mr. Thomas Lau, Luen-hung has also undertaken to the Lead Manager that for a period from 9 March 2005 up to 90 days from the Closing Date (and, if any Optional Bonds are issued, for a period of 90 days after the last Option Closing Date), each of them will not sell any Shares or enter into other transactions with a similar effect as described in the preceding paragraph.

The Subscription Agreement provides that the obligations of the Lead Manager are subject to certain conditions precedent, and entitles the Lead Manager to terminate it in certain circumstances prior to payment being made to the Company. The Company has agreed to indemnify the Lead Manager against certain liabilities in connection with the offer and sale of the Bonds.

The Lead Manager and certain of its subsidiaries or affiliates have performed certain investment banking and advisory services for the Company and/or its subsidiaries from time to time for which they have received customary fees and expenses. The Lead Manager may, from time to time, engage in transactions with and perform services for the Company and/or its subsidiaries in the ordinary course of their businesses.

## SUBSCRIPTION AND SALE

In connection with this offering, to the extent permitted by, and in accordance with, applicable laws and regulations, the Lead Manager may over-allot or effect transactions in the Bonds with a view to supporting the market price of the Bonds at a level higher than that which might otherwise prevail in the open market for a limited period. However, there is no obligation on the Lead Manager to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

### **General**

The Bonds are a new issue of securities with no established trading market. Application has been made to list the Bonds as selectively marketed securities on the Hong Kong Stock Exchange. However, no assurance can be given as to the liquidity of any trading market for the Bonds.

No action has been taken or will be taken in any jurisdiction that would permit a public offering of the Bonds, or possession or distribution of this Offering Circular or any amendment or supplement thereto or any other offering or publicity material relating to the Bonds, in any country or jurisdiction where action for that purpose is required. The Lead Manager is not authorised to make any representation or use any information in connection with the issue, subscription and sale of the Bonds other than as contained in this Offering Circular or any amendment or supplement thereto.

### **United States**

The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States or to any US persons (as defined in Regulation S of the Securities Act).

The Bonds are being offered and sold outside the United States in reliance on Regulation S.

In addition, until 40 days after the commencement of the offering of the Bonds, an offer or sale of the Bonds or the Shares to be issued upon conversion of the Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

### **United Kingdom**

The Lead Manager has represented, warranted and agreed that:

- (i) it has not offered or sold prior to the expiry of a period of six months from the issue date of the Bonds, will not offer or sell to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; or
- (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA")) received in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Company; or

## SUBSCRIPTION AND SALE

- (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

### **Bermuda**

The Lead Manager has represented and agreed that it has not made and will not make any invitation to the public in Bermuda to subscribe for or purchase the Bonds.

### **Hong Kong**

The Lead Manager has represented, warranted and agreed that:

- (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

### **Singapore**

The Lead Manager has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore (the "MAS") under the Securities and Futures Act, Chapter 289 of Singapore (the "Securities and Futures Act"). Accordingly the Bonds may not be offered or sold or be made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Bonds be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

### **Japan**

The Lead Manager has represented, warranted and agreed that the Bonds have not been and will not be registered under the Securities and Exchange Law of Japan (the "Securities and Exchange Law") and that the Bonds which it subscribes will be subscribed by it as principal and that, in connection with the initial offering of the Bonds, it will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other applicable laws and regulations of Japan.

## GENERAL INFORMATION

1. **Clearing Systems:** The Bonds have been accepted for clearance through Euroclear and Clearstream under Common Code number 021501344 and the International Securities Identification Number for the Bonds is XS0215013441.
2. **Listing of Shares:** Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares arising on conversion of the Bonds.
3. **Listing of Bonds:** Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Bonds. It is expected that dealing will, if permission is granted to deal in and for the listing of the Bonds on the Hong Kong Stock Exchange, commence on 21 April 2005.
4. **Authorisations:** The Company has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Company passed on 9 March 2005. Listing of the Bonds on the Hong Kong Stock Exchange is conditional upon satisfaction of the requirements of that exchange, including execution of the Trust Deed and the Agency Agreement.
5. **No Material Adverse Change:** Except as disclosed in this Offering Circular there has been no material adverse change in the financial or trading position of the Company and the Group since 31 December 2004 and no material adverse change in the financial position or prospects of the Group since 31 December 2004.
6. **Litigation:** Save as disclosed in this Offering Circular, neither the Company nor any of its subsidiaries is involved in any litigation or arbitration proceedings which are material in the context of the Bonds nor is the Company aware that any such proceedings are pending or threatened.
7. **Available Documents:** Copies of the latest annual report and consolidated accounts of the Company and the latest unaudited interim consolidated accounts of the Company may be obtained free of charge, and copies of the Trust Deed and the Agency Agreement will be available for inspection, at the specified office of the Company at 26th Floor, MassMutual Tower, 38 Gloucester Road, Wanchai, Hong Kong during normal business hours, so long as any of the Bonds is outstanding. The Company publishes unaudited consolidated interim financial statements every year for the six months ended 30 June.
8. **Indemnification of the Trustee:** The Trustee is entitled under the Trust Deed to rely without liability to the Bondholders on certificates prepared by the Directors of the Company and accompanied by a certificate or report prepared by an internationally recognised firm of accountants to the Company whether or not addressed to the Trustee, and whether or not the same are subject to any limitation on the liability of the internationally recognised firm of accountants to the Company and whether, by reference to a monetary cap or otherwise limited or excluded and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Company to procure such delivery under the Terms and Conditions or the Trust Deed. Any such certificate or report shall be conclusive and binding on the Company, the Trustee and the Bondholders.
9. **Auditors:** The consolidated financial statements of the Company as at and for the three years ended 31 December 2004, 2003 and 2002 incorporated by reference in this Offering Circular have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, as stated in their reports appearing therein.

## **GENERAL INFORMATION**

Deloitte Touche Tohmatsu have given and have not withdrawn their written consent for the purposes of paragraph 8(2) of Appendix 1 Part C of the Listing Rules to the issue of this Offering Circular with references to their audit reports on the published annual consolidated financial statements of the Company for the years ended 31 December 2004, 2003 and 2002 and with references to Deloitte Touche Tohmatsu in the form and context in which they appear.

## SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND IFRS

The audited consolidated financial statements have been prepared in conformity with Hong Kong Financial Reporting Standards ("HKFRS") which differ in certain significant aspects from those under International Financial Reporting Standards ("IFRS"). A brief description of certain significant differences between HKFRS and IFRS is set out below. The organisations that promulgate HKFRS and IFRS have projects ongoing that could have a significant impact on future comparisons such as this. This summary is not intended to provide a comprehensive listing of all existing or future differences between HKFRS and IFRS including those specifically related to the Group or the industries in which the Group operates. Had the Group undertaken to identify the differences specifically affecting their financial statements presented in the Offering Circular, other potentially significant differences may have come to the attention of the Group which are not provided in the following summary.

Accordingly the Group's management can provide no assurance that this summary of certain significant differences between HKFRS and IFRS provides a complete description of all differences which may have a significant impact on the Group's financial statements. No attempt has been made in this summary to identify disclosure, presentation or classification differences that would affect the manner in which transactions and events are reflected in the financial statements of the Group or the notes thereto.

The column HKFRS below sets out the accounting treatments currently adopted in the financial statements of the Group, while the column IFRS below sets out differences between HKFRS and IFRS effective as at 31 December 2004.

### HKFRS

### IFRS

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#### Leasehold land

Where leasehold land in the course of development is held for re-sale, it is classified as a current asset and is stated at the lower of cost and net realisable value. Where leasehold land in the course of development is held for long-term purposes, it is classified as a non-current asset and is stated at cost less any impairment losses recognised.

Where leasehold land is held for own use, it is classified as a non-current asset and is stated at cost or valuation less accumulated depreciation and any accumulated impairment losses. Where leasehold land is held over which investment properties are situated, such land is accounted for as part of the investment properties which are classified as non-current assets.

Under International Accounting Standard ("IAS") 17 "Leases", leasehold land is classified as either an operating lease or a finance lease. The premium paid for such leasehold land represents pre-paid lease payments which are amortised over the lease term in accordance with the pattern of benefits provided.



## SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND IFRS

### **Investment properties**

Investment properties are revalued annually by independent qualified valuers. Surpluses arising on revaluation are taken to the investment property revaluation reserve. Deficits arising on revaluation are first set off against any previous surplus and thereafter taken to the income statement. In addition, under Statement of Standard Accounting Practice ("SSAP") 13 "Accounting for investment properties", an investment property is required to be depreciated when the unexpired term of the lease is 20 years or less.

IAS 40 "Investment property" permits an enterprise to state investment properties either at fair value or at cost less accumulated depreciation and impairment losses. When a fair value model is adopted, IAS 40 does not require fair value to be based on an independent professional valuation. All changes in fair value are taken to the income statement. In addition, under IAS 40's fair value model, an investment property is never depreciated.

### **Revaluation of property, plant and equipment**

Under SSAP 17 "Property, plant and equipment", an item of property, plant and equipment should either be carried at its cost less accumulated depreciation and impairment losses or at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Subject to the transitional arrangements set out below, revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

IAS 16 "Property, plant and equipment" is consistent with SSAP 17, except that it does not include the transitional provisions included in SSAP 17.

Enterprises which carried property at revalued amounts in financial statements relating to periods ended before 30 September 1995 are not required to make regular revaluations provided that these enterprises do not revalue their property subsequent to 30 September 1995.

## SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND IFRS

### **Business combinations**

Under SSAP 30 “Business combinations”, the identified assets and liabilities recognised should be measured at their fair values as at the date of acquisition. Any minority interest should be stated at the minority's proportion of the fair values of the identifiable assets and liabilities of the subsidiary.

SSAP 30 does not permit IAS 22's benchmark treatment for the allocation of the cost of an acquisition.

IAS 22 “Business combinations” has a benchmark treatment of allocating the cost of an acquisition whereby the resulting minority interest is stated at the minority's proportion of the pre-acquisition carrying amounts of the net identifiable assets and liabilities of the subsidiary. IAS 22 also has an allowed alternative treatment of allocating the cost of an acquisition whereby resulting minority interest is stated at the minority's proportion of the fair values of the identifiable assets and liabilities of the subsidiary.

IAS 22 was replaced by IFRS 3 “Business combinations”, effective for agreements dated on or after April 1, 2004.

IFRS 3 requires the acquiree's identifiable assets, liabilities and contingent liabilities recognised as part of allocating the cost of the combination to be measured initially by the acquirer at their fair values at the acquisition date. Therefore, any minority interest in the acquiree is stated at the minority's proportion of the net fair values of those items. This is consistent with IAS 22's allowed alternative treatment.

### **Investments in jointly controlled entities**

Under SSAP 21 “Accounting for interests in joint ventures”, investments in jointly controlled entities should be accounted for by the equity method in consolidated financial statements.

The benchmark treatment for a venturer to account for its interest in a jointly controlled entity under IAS 31 “Interests in joint ventures” is proportionate consolidation of the financial statements of the jointly controlled entity. Proportionate consolidation may be given effect by either combining the venturer's share of each of the assets, liabilities, income and expenses of the jointly controlled entity with the similar items in its own financial statements on a line-by-line basis; or including separate line items for the venturer's share of the assets, liabilities, income and expenses of the jointly controlled entity in its own financial statements. IAS 31 also permits the equity method of accounting as an allowed alternative treatment for a venturer to report the interest in the jointly controlled entity.

## SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND IFRS

### Investments in securities

Investments in debt and equity securities, except those held either solely for the purpose of recovering advances or, as investments in subsidiaries, associates or joint ventures, are accounted for as follows:

Under SSAP 24 "Accounting for investments in securities", all investments in securities other than held-to-maturity securities are either accounted for using "benchmark" or "alternative" treatment. The Group has adopted the alternative treatment, whereby these investments in securities are recognised on a trade date basis and are initially measured at cost. At subsequent reporting dates, securities other than held-to-maturity debt securities are measured at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period.

Under IAS 39 "Financial instruments: recognition and measurement", financial assets are divided into four categories, which include held for trading, held-to-maturity investments, loans and receivables originated by the enterprise and available-for-sale. Financial assets are recognised when an enterprise becomes party to the contractual arrangements of an instrument.

All financial assets should be measured at fair value, except loans and receivables originated by the enterprise, held to maturity investments and financial assets that cannot be reliably measured at fair value. These assets should then be measured at amortised cost using the effective interest rate method.

A recognised gain or loss arising from a change in the fair value of a financial asset that is not part of a hedging relationship should be reported as follows:

- (a) a gain or loss on a financial asset or liability held for trading should be included in net profit or loss for the period in which it arises (in this regard, a derivative should always be considered to be held for trading unless it is a designated hedging instrument);

## SUMMARY OF CERTAIN DIFFERENCES BETWEEN HKFRS AND IFRS

- (b) a gain or loss on an available-for-sale financial asset should be either:
- i. included in net profit or loss for the period in which it arises; or
  - ii. recognised directly in equity, through the statement of changes in equity, until the financial asset is sold, collected, or otherwise disposed of, or until the financial asset is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity should be included in net profit or loss for the period.

A revised version of IAS 39, effective for financial periods beginning on or after 1 January 2005, will allow only option (i) above.

SSAP 24 requires no accounting treatment on derivatives.

IAS 39 requires derivatives to be recognised as financial assets or liabilities at fair value.

### **Borrowing costs**

Under SSAP 19 “Borrowing costs”, borrowing costs are expensed in the profit or loss in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to acquisition, construction or production of qualifying assets which necessarily take a substantial period of time to get ready for their intended use or sale.

IAS 23 “Borrowing costs” has a benchmark treatment of recognising all borrowing costs as an expense in the period in which they are incurred. However, it also permits as an alternative treatment to capitalise borrowing costs in relation to qualifying assets, similar to SSAP 19.

The Group's management has not quantified the effects of the aforementioned differences between HKFRS and IFRS. Accordingly, there can be no assurances that net profit (loss) and/or shareholders' equity reported in conformity with HKFRS would not be different if determined in conformity with IFRS.

**COMPANY**

**Chinese Estates Holdings Limited**

*Registered office*

Canon's Court  
22 Victoria Street  
Hamilton HM12  
Bermuda

*Principal Office in Hong Kong*

26<sup>th</sup> Floor, MassMutual Tower  
38 Gloucester Road  
Wanchai  
Hong Kong

**AUDITORS OF THE COMPANY**

**Deloitte Touche Tohmatsu**

26/F, Wing On Centre  
111 Connaught Road  
Central  
Hong Kong

**TRUSTEE**

**DB Trustees (Hong Kong) Limited**

55th Floor  
Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

**REGISTRAR**

**Deutsche Bank Luxembourg S.A.**

2, Boulevard Konrad Adenauer  
L-1115 Luxembourg

**PRINCIPAL PAYING, CONVERSION AND TRANSFER AGENT**

**Deutsche Bank AG, Hong Kong Branch**

55th Floor  
Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

**LEGAL ADVISERS**

*To the Company  
as to Bermuda law*

**Appleby Spurling Hunter**

5511, The Center  
99 Queen's Road Central  
Hong Kong

*To the Company  
as to English law*

**Lovells**

23/F Cheung Kong Center  
2 Queen's Road Central  
Hong Kong

*To the Lead Manager and the Trustee  
as to English law*

**Freshfields Bruckhaus Deringer**

11th Floor  
Two Exchange Square  
8 Connaught Road  
Hong Kong