

# CIRCULAR ON SHARE OPTION SCHEME AND GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

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## APPENDIX II

## EXPLANATORY STATEMENT

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This Appendix serves as an explanatory statement, as required by the Listing Rules, to provide the requisite information to shareholders of the Company for their consideration of the Repurchase Mandate. For this purpose, “shares” is defined in the Listing Rules to include securities carrying a right to subscribe for or purchase shares.

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their fully paid up shares on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

### 1. Reasons for repurchases

The Directors believe that the ability to repurchase Shares is in the interests of the Company and its shareholders. Repurchases may, depending on the circumstances, result in an increase in net assets and/or earnings per share. The Directors are seeking the grant of a general mandate to repurchase Shares to give the Company the flexibility to do so if and when appropriate. The number of Shares to be repurchased on any occasion and the price and other terms upon which the same are repurchased will be decided by the Directors at the relevant time having regard to the circumstances then prevailing.

### 2. Source of funds

Repurchases must be made out of funds which are legally available for such purpose and in accordance with the Companies Ordinance and the Memorandum and Articles of Association of the Company. It is envisaged that the funds required for any repurchase would be derived from the distributable profits of the Company which shall be funds legally available for such purpose in accordance with the Listing Rules and the laws of Hong Kong.

### 3. Impact of repurchases on working capital

There could be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in its latest published audited accounts) in the event that the proposed share repurchases were to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the general mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

### 4. Maximum number of shares to be repurchased and subsequent issue

A maximum of 10 per cent of the existing issued share capital of a company at the date of passing the relevant resolution may be repurchased on the Stock Exchange. A company may not, without the prior approval of the Stock Exchange, issue new shares or announce a proposed new issue of shares for a period of 30 days immediately following a share repurchase whether on the Stock Exchange or otherwise (other than an issue of securities pursuant to the exercise of warrants, share options or similar instruments

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requiring the company to issue securities, which were outstanding prior to the repurchase). As at the Latest Practicable Date, the issued share capital of the Company comprised 435,000,000 Shares in issue. As at the same date, no options to subscribe for Shares had been granted and were outstanding under the Company's share option scheme adopted on 10 June 1994. Subject to the passing of Ordinary Resolution No.6 set out in the AGM Notice and on the basis that no further Shares are issued or repurchased between 15 March 2002 and the date of passing such resolution prior to the AGM, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 43,500,000 Shares.

### 5. Connected parties

A company is prohibited from knowingly repurchasing shares on the Stock Exchange from a Connected Person, and a Connected Person is prohibited from knowingly selling his shares in the Company on the Stock Exchange. No Connected Persons have notified the Company that they have a present intention to sell Shares to the Company or have undertaken not to do so, in the event that the Repurchase Mandate is approved by the Shareholders.

### 6. Share prices

The highest and lowest unit prices at which the Shares have traded on the Stock Exchange during each of the previous twelve months before the Latest Practicable Date are as follows:

	Highest	Lowest
	\$	\$
March 2001	9.150	8.100
April 2001	11.200	8.000
May 2001	10.550	9.300
June 2001	9.650	8.500
July 2001	9.300	8.500
August 2001	8.850	8.100
September 2001	8.250	5.700
October 2001	7.100	6.450
November 2001	7.500	6.800
December 2001	7.750	7.100
January 2002	8.300	7.100
February 2002	8.000	7.650

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### 7. Disclosure of interests

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the powers of the Company to make repurchases pursuant to the Repurchase Mandate and in accordance with the Listing Rules.

If on the exercise of the power to repurchase Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 32 of the Takeovers Code. As a result, a Shareholder or a group of Shareholders acting in concert could obtain or consolidate control of the Company and thereby become obliged to make a mandatory general offer in accordance with Rules 26 and 32 of the Takeovers Code. The Directors are not aware of any consequences which would arise under the Takeovers Code as a result of any repurchases under the Repurchase Mandate other than the restriction that the controlling shareholding of Liu Chong Hing Estate Company Limited (which currently stands at 45.11 per cent of the Company's Shares in issue) should not rise more than 2 percentage points for a 12-month period thereafter. Neither should that of Liu Chong Hing Estate Company Limited and those persons acting in concert within the meaning of the Takeovers Code (which currently stands at 49.79 per cent of the Company's Shares in issue). If the Repurchase Mandate were to be fully exercised, the above shareholdings would exceed the limit concerned and move up to 50.12 per cent and 51.98 per cent respectively, thereby triggering Rule 26 of the Takeovers Code in respect of mandatory offer. The Directors, however, have no present intention of exercising the Repurchase Mandate in such a way (if it were to be exercised at all) that would trigger any such mandatory offer.

None of the Directors and their associates have any present intention to sell any Shares to the Company under the Repurchase Mandate if such Repurchase Mandate is approved by the Shareholders.

The Company has not repurchased any of its Shares (whether on the Stock Exchange or otherwise) in the six months preceding the date of this circular.