

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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BOTO INTERNATIONAL HOLDINGS LIMITED
寶途集團國際有限公司*

(Incorporated in Bermuda with limited liability)

**MAJOR TRANSACTION,
SHARE PREMIUM TRANSFER
AND
SPECIAL CASH DIVIDEND**

Financial Adviser to Boto International Holdings Limited



Independent Financial Adviser to shareholders

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

A letter from Anglo Chinese Corporate Finance, Limited containing its advice to the shareholders of Boto International Holdings Limited is set out on pages 34 to 54 of this circular.

A notice convening the first special general meeting of the shareholders of Boto International Holdings Limited to consider and approve the Revised Transactions (as defined in this circular) to be held at 16th Floor, Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong on Monday, 19th August, 2002 at 10:30 a.m. is set out on pages 67 and 68 of this circular. Whether or not you are able to attend the first special general meeting, you are requested to complete and return the accompanying pink form of proxy to the branch share registrars of the Company, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the first special general meeting. Completion and return of the pink form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

A notice convening the second special general meeting of the shareholders of Boto International Holdings Limited to consider and approve the Share Premium Transfer and the Special Cash Dividend (as defined in this circular) to be held at 16th Floor, Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong on Friday, 30th August, 2002 at 10:30 a.m. is set out on pages 69 and 70 of this circular. Whether or not you are able to attend the second special general meeting, you are requested to complete and return the accompanying blue form of proxy to the branch share registrars of the Company, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the second special general meeting. Completion and return of the blue form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

* For identification only

2nd August, 2002

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DEFINITIONS

In this circular, unless the context otherwise requires, the following words and expressions have the following meanings:

“Anglo Chinese”	Anglo Chinese Corporate Finance, Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Announcement”	the announcement made by the Company dated 2nd April, 2002 in respect of, amongst other things, the Disposal Agreement and the Boto Property Disposal Agreement
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“BIML”	Boto International Marketing Limited, a company which was incorporated in the British Virgin Islands with limited liability and which is a wholly-owned subsidiary of Boto Strategic
“B(L)L”	Boto (Licenses) Limited, a company which was incorporated in the Isle of Man with limited liability and which is a wholly-owned subsidiary of Boto Strategic
“Bo Cheong”	Bo Cheong Manufacturing Company Limited, a company which was incorporated in Hong Kong with limited liability and which is owned as to 10% by Boto Company
“Bo Cheong Shares”	10,000 Class B shares of HK\$1.00 each in the capital of Bo Cheong, representing 10% of the issued share capital of Bo Cheong
“Board”	the board of Directors
“Boji”	寶吉工藝品(深圳)有限公司 (Boji (Shenzhen) Company Limited), a wholly foreign owned enterprise established under the laws of the PRC and which is a wholly-owned subsidiary of GCL
“Boli”	Boli Company Limited, a company which was incorporated in Hong Kong with limited liability and which is a wholly-owned subsidiary of Boto Strategic
“Borrison”	寶麗順五金塑膠製品(深圳)有限公司 (Borrison Metals and Plastics Manufacturing (Shenzhen) Limited), a wholly foreign owned enterprise established under the laws of the PRC and which is a wholly-owned subsidiary of GIL
“Boto Business”	the business of the sale of artificial Christmas trees and related accessories, and purchase of raw materials carried on by Boto Company under the name of “Boto Company Limited” on the date of the Completion

DEFINITIONS

“Boto Business Assets”	certain of the tangible and intangible assets of Boto Company relating to the Boto Business as at the date of the Completion
“Boto Company”	Boto Company Limited, a company which was incorporated in Hong Kong with limited liability and which is a wholly-owned subsidiary of Topway
“Boto Investments”	Boto Investments Inc., a company which was incorporated in the State of Delaware in the United States of America with limited liability and which is a wholly-owned subsidiary of Boto Strategic
“Boto Property”	Units 1 to 12 on 17th Floor of Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong
“Boto Property Disposal Agreement”	the conditional sale and purchase agreement dated 29th March, 2002 made between Boto Company and GFEL whereby Boto Company agreed to sell the Boto Property to GFEL for a consideration of HK\$13.5 million
“Boto Strategic”	Boto Strategic Holdings Limited, a company which was incorporated in British Virgin Islands with limited liability and which is a wholly-owned subsidiary of the Company
“Boto Strategic Shares”	10,000 ordinary shares of US\$1 each in the capital of Boto Strategic, representing the entire issued share capital of Boto Strategic
“Boto.Net”	Boto.Net Solutions Limited (whose name has been changed to Imagi Animation Studios Limited), a company which was incorporated in Hong Kong with limited liability and which is a wholly-owned subsidiary of Topway
“Businesses”	the business of designing, manufacturing, marketing and distribution of Christmas festive products, which include artificial Christmas trees and other decorative accessories, and leisure furniture products
“Cancellation Agreement”	the cancellation agreement dated 10th July, 2002 between Boto Company and GFEL
“Carlyle”	The Carlyle Group and its affiliates
“Companies Act”	The Companies Act 1981 of Bermuda
“Company”	Boto International Holdings Limited, a company which was incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange

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“Completion”	completion of the New Disposal Agreement and the New Boto Property Disposal Agreement
“Consideration”	the total consideration of HK\$1,064 million under the New Disposal Agreement
“Consultancy Services Agreement”	the consultancy services agreement to be entered into between the Company and GFEL upon Completion
“Credit Agreement”	the facilities agreement dated 29th March, 2002 as amended and supplemented by an amendment and restatement agreement dated 10th July, 2002 made between GGCL (as principal obligor), GFEL (as principal borrower) and The Hongkong and Shanghai Banking Corporation Limited (as Coordinating Arranger, Underwriter, Facility Agent, Security Agent and Working Capital Bank)
“Deed of Termination”	the deed of termination dated 10th July, 2002 between the Company, Boto Company, GGCL and GFEL
“Director(s)”	the director(s) of the Company, including the independent non-executive directors of the Company
“Disposal Agreement”	the conditional sale and purchase agreement dated 29th March, 2002 entered into between the Company, Boto Company, GGCL, and GFEL whereby the Company and Boto Company agreed to dispose the Sale Shares, the Boto Business, the Boto Business Assets and the GCL Loan to GGCL and GFEL for a total consideration of HK\$994 million, and as supplemented by a supplemental agreement dated 29th May, 2002 relating thereto
“First Special General Meeting”	the special general meeting of the Company to be convened on Monday, 19th August, 2002 for approving the Revised Transactions
“Focal Consultants”	Focal Consultants Limited, a company which was incorporated in Hong Kong with limited liability and which is a wholly-owned subsidiary of Boto Strategic
“Focal Industrial”	Focal Industrial Limited, a company which was incorporated in Hong Kong with limited liability and which is a wholly-owned subsidiary of Boto Strategic
“FPDSavills”	FPDSavills (Hong Kong) Limited, independent professional surveyors
“Freyner”	Freyner Manufacturing Limited, a company which was incorporated in the British Virgin Islands with limited liability and which is a wholly-owned subsidiary of Topway

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“GCL”	Goldenform Company Limited, a company which was incorporated in Hong Kong with limited liability, the ordinary share capital of which is wholly-owned by Smarter
“GCL Loan”	all amounts payable by GCL to the Company amounting to HK\$147,536,793
“GFEL”	Greenland Far East Limited, a company which was incorporated in Hong Kong with limited liability and which is a wholly-owned subsidiary of GGCL
“GGCL”	Greenland General Company Limited, a company which was incorporated in the British Virgin Islands with limited liability and which is a wholly-owned subsidiary of GIHL
“GIHL”	Greenland Investments Holdings Limited, a company incorporated in the British Virgin Islands which will be owned as to 25% by Topway and as to 75% by the limited partnerships affiliated with Carlyle
“GIHL Group”	GIHL and its subsidiaries
“GIHL Shares”	shares of US\$1.00 each in the capital of GIHL
“GIL”	Goldenform Investments Limited, a company which was incorporated in Hong Kong with limited liability and which is a wholly-owned subsidiary of GCL
“Group”	the Company and its subsidiaries
“Happy Nation”	a company which is indirectly wholly-owned by HSBC International Trustee Limited (in its capacity as the trustee of The Cheerco Trust, a discretionary trust of which Mr. Kao and his family members are discretionary objects)
“Imagi”	Imagi Production Limited, a company which was incorporated in Hong Kong with limited liability and which is owned as to 82.5% by Boto.Net and as to the balance 17.5% by Mr. Tang Tung Ming, the chief operating officer of Imagi
“Imagi Group”	Imagi, its subsidiaries and its fellow subsidiaries
“Latest Practicable Date”	30th July, 2002, the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Francis Kao”	Mr. Kao Wai Ho, Francis

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“Mr. Kao”	Mr. Kao Cheung Chong, Michael
“Mr. Kui”	Mr. Kui Yiu Ngok
“Mr. Lam”	Mr. Lam Pak Kin, Philip
“Mr. Tse”	Mr. Tse Chi Man, Terry
“Ms. Vivian Kao”	Ms. Kao Wai Wing, Vivian
“New Boto Property Disposal”	the disposal of the Boto Property by Boto Company to GFEL pursuant to the New Boto Property Disposal Agreement
“New Boto Property Disposal Agreement”	the conditional sale and purchase agreement dated 10th July, 2002 made between Boto Company and GFEL in relation to the disposal of the Boto Property by Boto Company to GFEL
“New Disposal”	the disposal by the Group of the Sale Shares, the Boto Business, the Boto Business Assets and the GCL Loan to GGCL and GFEL pursuant to the New Disposal Agreement
“New Disposal Agreement”	the conditional sale and purchase agreement dated 10th July, 2002 entered into between the Company, Boto Company, GGCL, and GFEL in relation to, among other things, the New Disposal
“New Shareholders’ Agreement”	the conditional shareholders’ agreement dated 10th July, 2002 entered into between the limited partnerships affiliated with Carlyle (who are parties to the New Subscription Agreement), Topway, GIHL and the Company
“New Subscription Agreement”	the conditional subscription agreement dated 10th July, 2002 entered into between certain limited partnerships affiliated with Carlyle, Topway and GIHL relating to, among other things, the subscription of GIHL Shares by Topway and the limited partnerships affiliated with Carlyle
“Non-abstaining Shareholders”	the Shareholders (other than Mr. Kao, Mr. Lam, Mr. Kui, Mr. Francis Kao, Ms. Vivian Kao, Mr. Tse and their respective associates)
“Other Shareholders”	Topway (and its permitted transferee), the limited partnerships which are affiliated with Carlyle (which are also GIHL shareholders) and the 10% Shareholder, other than the Proposed Transferor (as defined in the paragraph headed “Right of first offer” in the section headed “The New Shareholders’ Agreement” in the Letter from the Board), and “Other Shareholder” means any one of them

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“PRC”	People’s Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Purchaser(s)”	GFEL and GGCL
“Revised Transactions”	the transactions contemplated under the New Disposal Agreement, the New Boto Property Disposal Agreement, the New Subscription Agreement, the New Shareholders’ Agreement and the Consultancy Services Agreement
“Sale Shares”	the Boto Strategic Shares and the Bo Cheong Shares
“Second Special General Meeting”	the special general meeting of the Company to be convened on Friday, 30th August, 2002 for approving the Share Premium Transfer and the Special Cash Dividend
“Share(s)”	ordinary share(s) of HK\$0.02 each in the capital of the Company
“Share Premium Transfer”	the proposed transfer of the amounts standing in the share premium account to the contributed surplus reserve of the Company referred to in the paragraph headed “Share Premium Transfer” in the Letter from the Board
“Shareholders”	holder(s) of Share(s)
“Sino Pearl”	Sino Pearl Venture Limited, a company which was incorporated in the British Virgin Islands with limited liability and which is a wholly-owned subsidiary of Happy Nation
“Smarter”	Smarter Base Limited, a company which was incorporated in the British Virgin Islands with limited liability and which is a wholly-owned subsidiary of Boto Strategic
“Special Cash Dividend”	the special cash dividend of HK\$0.26 per Share to be distributed to Shareholders subject to Completion and Shareholders’ approval
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement”	the conditional subscription agreement dated 29th March, 2002 entered into between certain limited partnerships affiliated with The Carlyle Group, GIHL, Sino Pearl and Mr. Kao relating to, among other things, the subscription of GIHL Shares by such limited partnerships, Sino Pearl and Mr. Kao and as supplemented by a supplemental agreement dated 29th May, 2002

DEFINITIONS

“Subscription Agreement Deed of Termination”	the deed of termination dated 10th July, 2002 between the parties to the Subscription Agreement
“subsidiary”	a company which is for the time being and from time to time a subsidiary (within the meaning of Section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong))
“Sunni”	Sunni International Limited
“TOB Notice Period”	the period of 1 month commencing from the date of publication of the transfer of business notice by Boto Company and GFEL in compliance with the Transfer of Businesses (Protection of Creditors) Ordinance (Chapter 49 of the Laws of Hong Kong) (i.e., from 5th July, 2002 to 5th August, 2002)
“TOB Proceeding”	any proceedings instituted against Boto Company or GFEL in respect of liabilities of Boto Company or of GFEL pursuant to Section 3 of the Transfer of Businesses (Protection of Creditors) Ordinance (Chapter 49 of the Laws of Hong Kong)
“Topway”	Topway Asset Limited, a company which was incorporated in the British Virgin Islands with limited liability and which is a wholly-owned subsidiary of the Company
“Vendor(s)”	the Company and Boto Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“2D”	2-Dimensional
“3D”	3-Dimensional
“10% Shareholder”	any shareholder of GIHL (other than Topway and any limited partnerships affiliated with Carlyle which are shareholders of GIHL) holding 10% or more of the issued share capital of GIHL from time to time

For the purpose of this circular, conversion of US dollars into Hong Kong dollars is calculated at the approximate exchange rate of US\$1.00 = HK\$7.78, for the purpose of illustration only and does not constitute a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate.

LETTER FROM THE BOARD



BOTO INTERNATIONAL HOLDINGS LIMITED **寶途集團國際有限公司***

(Incorporated in Bermuda with limited liability)

Directors:

Mr. Kao Cheung Chong, Michael
(Chairman and Managing Director)
Mr. Lam Pak Kin, Philip
(Deputy Chairman and Deputy Managing Director)
Mr. Kui Yiu Ngok
Ms. Tsen Yun Lei, Liliana
Mr. Kao Wai Ho, Francis
Mr. Zhuo Fu Min
Mr. Alexander Reid Hamilton
Mr. Oh Kok Chi

Non-executive Director

Independent non-executive Directors

*Head office and principal place
of business:*

17th Floor, Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

Registered office:

Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

2nd August, 2002

To the Shareholders

Dear Sir and Madam,

MAJOR TRANSACTION, SHARE PREMIUM TRANSFER AND SPECIAL CASH DIVIDEND

INTRODUCTION

The Directors announced on 2nd April, 2002, amongst other things, that on 29th March, 2002 : (i) the Company and Boto Company (a wholly-owned subsidiary of the Company) entered into the Disposal Agreement with GGCL and GFEL; and (ii) Boto Company entered into the Boto Property Disposal Agreement with GFEL. Since the Announcement, the Company, Carlyle and Mr. Kao received some comments from certain Shareholders raising concerns that Mr. Kao should not be the only Shareholder who has a direct interest in GIHL. Having re-considered these concerns and after arm's length negotiations between the parties, the limited partnerships affiliated with Carlyle agreed to release their requirement of Mr. Kao investing 30% in GIHL and that the Company will retain a 25% interest in the Businesses by subscribing for new GIHL Shares representing a 25% equity interest in GIHL (through Topway, a wholly-owned subsidiary of the Company). The limited partnerships affiliated with Carlyle will have the remaining 75% interest in GIHL. The Directors announced that on 10th July, 2002, the Company, Boto Company, the limited partnerships affiliated with Carlyle and the GIHL Group have agreed to revise, among other things, the Disposal Agreement and the Boto Property Disposal Agreement on the terms of the New Disposal Agreement, the New Boto Property Disposal Agreement, the New Subscription Agreement, the New Shareholders' Agreement and the Consultancy Services Agreement.

* *For identification only*

LETTER FROM THE BOARD

In light of the revision of the transaction, the parties to the Disposal Agreement, the Boto Property Disposal Agreement and the Subscription Agreement have agreed to terminate such agreements and to release each other from such agreements pursuant to the Deed of Termination, the Cancellation Agreement and the Subscription Agreement Deed of Termination, respectively.

The New Disposal Agreement and the New Boto Property Disposal Agreement together constitute a major transaction of the Company, and are therefore subject to the approval of the Non-abstaining Shareholders. The New Subscription Agreement, the New Shareholders' Agreement and the Consultancy Services Agreement, which are integral to the New Disposal Agreement and the New Boto Property Disposal Agreement, will also be subject to the approval of the Non-abstaining Shareholders. Mr. Kao, Mr. Lam, Mr. Kui, Mr. Francis Kao, Mr. Tse, all being existing or proposed Directors, and Ms. Vivian Kao, who, together with their respective associates, were holding 2,085,127,810 Shares, representing approximately 60.6% of the Company's issued share capital as at the Latest Practicable Date, will abstain from voting on the resolution to be proposed at the First Special General Meeting to approve the Revised Transactions. Anglo Chinese has been appointed to advise the Shareholders on the Revised Transactions.

On 18th July, 2002, the Directors announced that subject to Completion, the Special Cash Dividend of HK\$0.26 per Share will be paid to the Shareholders. To facilitate the payment of the Special Cash Dividend, it is necessary to carry out the Share Premium Transfer.

The purpose of this circular is to provide you with further information regarding the New Disposal Agreement, the New Boto Property Disposal Agreement, the New Subscription Agreement, the New Shareholders' Agreement, the Consultancy Services Agreement, the Deed of Termination the Cancellation Agreement, the Share Premium Transfer and the Special Cash Dividend, to set out the advice of Anglo Chinese on the Revised Transactions and to give you notices of the two special general meetings convened for the purpose of considering, and if thought fit, approving the Revised Transactions and the Share Premium Transfer as well as the Special Cash Dividend, respectively.

THE NEW DISPOSAL AGREEMENT

Date : 10th July, 2002

Parties :

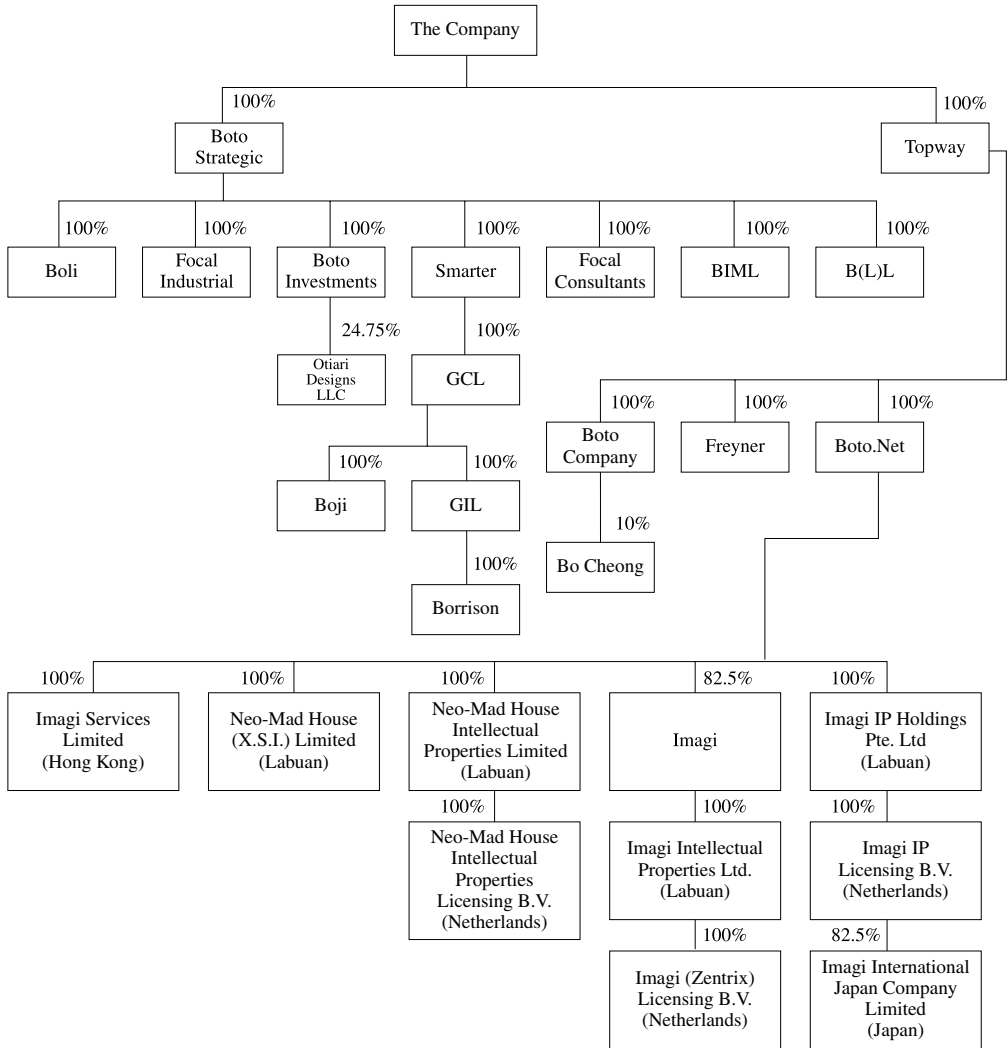
- (i) The Company (in its capacity as the vendor of the Boto Strategic Shares and the assignor of the GCL Loan and in its capacity as the guarantor of the obligations of the other Vendor (i.e., Boto Company) under the New Disposal Agreement);
- (ii) GGCL (in its capacity as the purchaser of the Sale Shares);
- (iii) Boto Company (in its capacity as the vendor of the Boto Business, the Boto Business Assets and the Bo Cheong Shares); and
- (iv) GFEL (in its capacity as the purchaser of the Boto Business, the Boto Business Assets and the assignee of the GCL Loan).

LETTER FROM THE BOARD

Corporate structure:

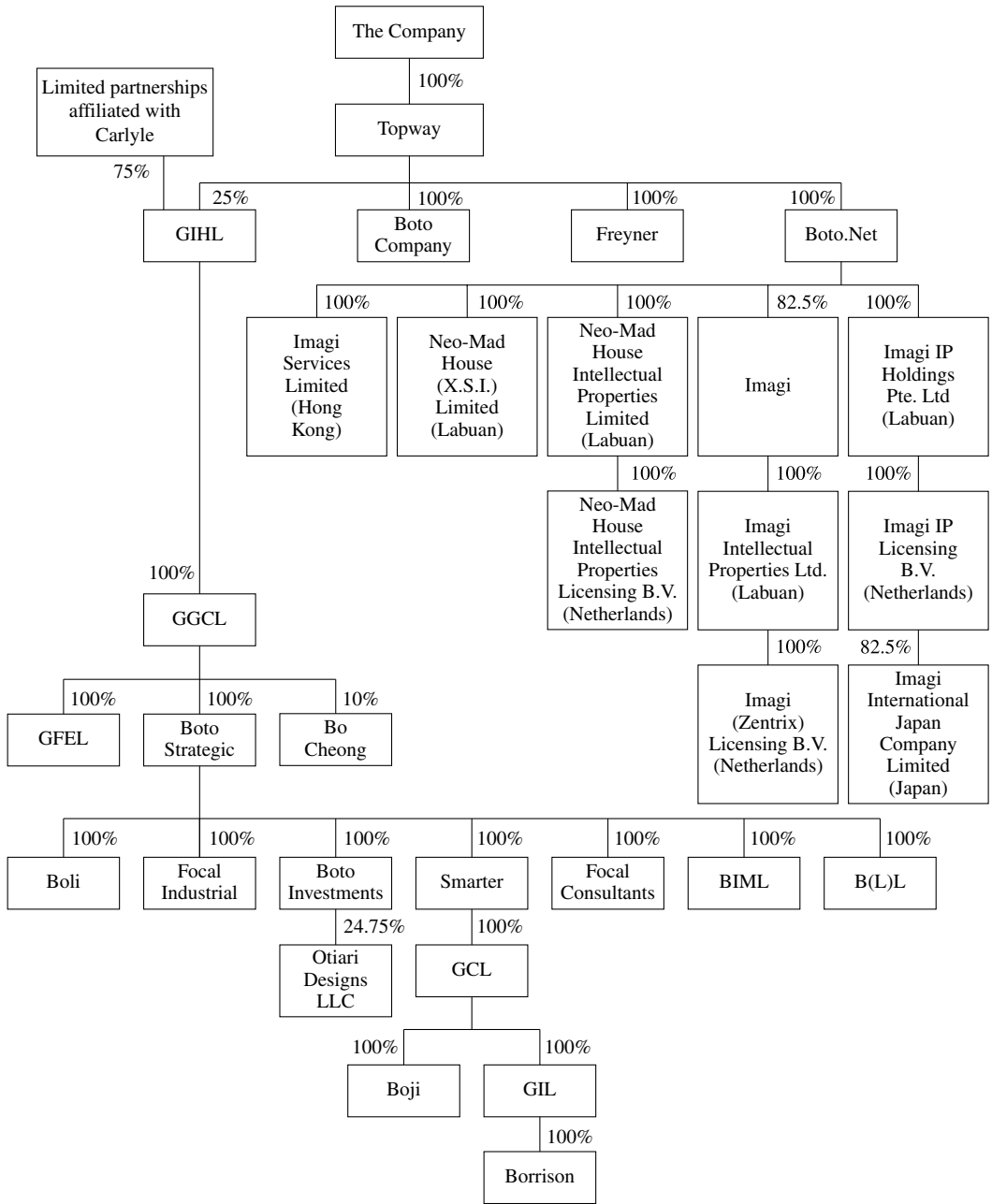
Set out below is the corporate structure of the Group before and immediately after Completion:–

Before Completion



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Immediately after Completion



LETTER FROM THE BOARD

Assets to be disposed of:

The assets to be sold by the Group to the Purchasers under the New Disposal Agreement comprise the Sale Shares, the GCL Loan, the Boto Business and the Boto Business Assets, which together effectively constitute the Group's Christmas festive products and leisure furniture businesses. The Company will, however, effectively retain a 25% interest in the Businesses through the subscription by Topway of new GIHL Shares representing a 25% equity interest in GIHL. Set out below is the financial performance of the Group for the two financial years ended 31st March, 2002, which principally reflects the performance of the Group's entire businesses:–

	Year ended 31st March, 2002	2001
	(Audited)	(Audited)
	<i>HK\$ million</i>	<i>HK\$ million</i>
Turnover		
Christmas festive products	882.7	827.9
Leisure furniture	188.6	81.7
Computer graphics animation	1.6	0.0
	1,072.9	909.6
Profit before taxation	148.0	161.9
Profit attributable to Shareholders	141.4	156.4

A segmentation of the financial performance of the Businesses to be disposed of and the remaining business of the Group for the year ended 31st March, 2002 is set out in Appendix II to this circular.

Consideration:

The Consideration for the sale of the Sale Shares, the GCL Loan, the Boto Business and the Boto Business Assets will amount to HK\$1,064 million (an increase of HK\$70 million from the amount earlier contemplated under the Disposal Agreement) (subject to adjustments as described below). The Consideration shall be payable in cash on Completion.

Upon finalisation of the Audited Completion Accounts (as defined in the New Disposal Agreement) (i.e., the statement of accounts of the aggregation of the audited consolidated balance sheet of Boto Strategic and its subsidiaries and the audited statement of assets and liabilities of Boto Business as at the date of Completion):–

- (i) if the aggregate of Net Cash, Net Working Capital and Net Fixed Assets (each as defined in the New Disposal Agreement) derived from the Audited Completion Accounts shall be less than HK\$709 million, the Vendors shall pay to the Purchasers an amount equal to the Aggregate Net Cash and Net Working Capital and Net Fixed Assets Shortfall (as defined in the New Disposal Agreement). Based on the audited accounts of the Group as at 31st March, 2002, the Net Cash, Net Working Capital and Net Fixed Assets (each as defined in the New Disposal Agreement) were approximately HK\$(37.1) million (i.e. deficit), HK\$192.0 million, and HK\$585.6 million respectively, totalling HK\$740.5 million; and/or

LETTER FROM THE BOARD

- (ii) if the Boto.Net Group Accounts Payable (as defined in the New Disposal Agreement) derived from the Audited Completion Accounts shall be in excess of HK\$32.6 million, the Vendors shall pay to the Purchasers an amount equal to any such excess. Based on the audited accounts of the Group as at 31st March, 2002, the excess amount was approximately HK\$3.6 million;

in each case as repayment of the Consideration. Any such sum which is payable by the Vendors (if any) shall be due and payable to the Purchasers within 30 days from the finalisation of the abovementioned Audited Completion Accounts.

The Consideration has been arrived at after arm's length negotiations between the parties taking into consideration, inter alia, the past performance of the Businesses, the net asset values of Boto Strategic and its subsidiaries, the face value of the GCL Loan, the value of Bo Cheong, the value of the Boto Business and the Boto Business Assets. The Consideration represents a price earnings multiple of approximately 7.5 times based on the audited profit attributable to Shareholders of approximately HK\$141.4 million for the year ended 31st March, 2002. The effective consideration (i.e., the Consideration as adjusted for the pre-completion dividend and the consideration under the New Boto Property Disposal Agreement) amounts to HK\$1,170 million, which represents a price earnings multiple of approximately 8.3 times based on the audited profit attributable to Shareholders of approximately HK\$141.4 million for the financial year ended 31st March, 2002.

Pre-completion dividend:

Pursuant to the New Disposal Agreement, Boto Strategic and its subsidiaries and/or Boto Company shall declare and pay a dividend of an amount of HK\$92.5 million to the Company and/or Topway on the business day immediately prior to the date of the Completion. The parties to the New Disposal Agreement have agreed that such dividend shall not be included in the calculation of Net Cash (as defined in the New Disposal Agreement) and Net Working Capital (as defined in the New Disposal Agreement) for the purposes of the Audited Completion Accounts (as defined in the New Disposal Agreement).

Premium over net assets to be disposed of:

Based on the audited consolidated balance sheet of the Group as at 31st March, 2002, the net asset value of the Businesses to be disposed of pursuant to the New Disposal Agreement amounted to approximately HK\$787.5 million, before deducting the HK\$92.5 million pre-completion dividend and approximately HK\$695.0 million after adjusting for the pre-completion dividend. The Consideration of HK\$1,064 million thus represents a premium of approximately 53% over or approximately 1.53 times of the net asset value of the Businesses, after adjusting for the pre-completion dividend.

Net asset value undertaking:

Pursuant to the New Disposal Agreement, the Company has undertaken to the Purchasers that it and its subsidiaries will maintain net assets of not less than HK\$170 million for a period of 15 months after Completion. However, in the event that, during the TOB Notice Period, any TOB Proceedings are instituted and:-

- (i) in aggregate such proceedings relate to an amount in excess of HK\$70,000,000; and

LETTER FROM THE BOARD

- (ii) the liabilities to which such proceedings relate are Excluded Liabilities (as defined in the New Disposal Agreement); and
- (iii) such proceedings have not been settled on or before the date of Completion,

the Company has undertaken to the Purchasers that it and its subsidiaries will maintain net assets of not less than HK\$170 million plus the difference between the aggregate amount of the liabilities to which the TOB Proceedings relate and HK\$70,000,000 for the period from the date of the Completion until the earlier of the date on which such proceedings have been settled and/or finally determined or the end of the 15-month period referred to above.

In the event that, during the TOB Notice Period, any TOB Proceedings are instituted and:–

- (i) in aggregate such proceedings relate to an amount in excess of HK\$10,000,000; and
- (ii) the liabilities to which such proceedings relate are Excluded Liabilities (as defined in the New Disposal Agreement); and
- (iii) such proceedings have not been settled on or before the last date of the 15-month period referred to above,

the Company has undertaken to the Purchasers that it and its subsidiaries will, after the end of the 15-month period referred to above and until each such proceeding has been settled and/or finally determined, maintain net assets of not less than:–

- (i) the aggregate amount of the liabilities to which the TOB Proceedings relate; or
- (ii) the outstanding amount of such liabilities,

whichever is less.

If no proceeding is instituted during the aforementioned period, the Company will retain the financial resources for working capital and future investment purposes.

Conditions:

Completion is subject to each of the following conditions being satisfied or waived (in the case of the conditions described in paragraph (ii) to (iv) below):–

- (i) the passing of the necessary resolutions by the Shareholders at a special general meeting of the Company to approve the New Disposal Agreement and the transactions contemplated thereunder;
- (ii) all consents, approvals or clearances required under any and all applicable laws and relevant agreements with third parties for the sale and purchase of the Sale Shares and the Boto Business and to give effect to the transactions contemplated under the New Disposal Agreement being obtained;
- (iii) the receipt by the Purchasers of legal opinions from their legal advisors in the agreed terms and from the Hong Kong legal advisors of the Vendors and certain legal advisors

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in Bermuda and the British Virgin Islands, in each case, in the form to be agreed between the Purchasers and the Vendors; and

- (iv) the delivery by the Company and Boto Company to the Purchasers of the list of documents specified in the New Disposal Agreement.

Completion of the sale and purchase of the Sale Shares, the GCL Loan, the Boto Business and the Boto Business Assets shall occur simultaneously. Completion shall take place on the 4th business day following the due fulfillment of the last in time to be satisfied or waived (as the case may be) of the above conditions or at such other place or time as the parties shall agree in writing, provided that Completion shall not take place prior to the expiry of the TOB Notice Period.

If the above conditions have not been fulfilled or, in the case of the conditions described in paragraphs (ii) to (iv) above, waived by the Purchasers (as the case may be) by 30th September, 2002 (or such later date as the parties may agree in writing), the provisions of the New Disposal Agreement shall have no effect and no party shall have any liability under them (without prejudice to the rights of any parties in respect of antecedent breaches).

Purchasers' rights:

If before Completion:–

- (i) the Purchasers become aware and give written notice to the Vendors that there is a breach of any of the warranties as contained in the New Disposal Agreement, (other than as a result of a breach by the Purchasers of their obligations of confidentiality under the New Disposal Agreement) which is material in the context of the Group as a whole, and (if such breach is capable of remedy) the Vendors fail to remedy the same within 7 days from the date of receipt by the Vendors of such notice or the date of completion of the New Subscription Agreement, whichever is earlier; or
- (ii) and at any time after the date of the New Disposal Agreement, any event occurs which:–
 - (a) has, or is likely to have, a material adverse effect on the financial position or business prospects of any customer of the Group which accounts for 25% or more of the Group's external purchase orders for the financial year ended 31st March, 2001 which, in turn, results in a material adverse change in the financial position or the business prospects of Boto Strategic and its subsidiaries and the Boto Business (as a whole); or
 - (b) has, or is likely to have, a material adverse effect on the financial position or business prospects of Boto Strategic and its subsidiaries and the Boto Business (as a whole), not being an event which affects generally all companies carrying on business similar to that of any of Boto Strategic or any of its subsidiaries and/or the Boto Business in a part or parts of the world where any of Boto Strategic or its relevant subsidiary (as the case may be) carries on its business or where the Boto Business is carried on; or
 - (c) has, or is likely to have, a material adverse effect on the global financial markets, or the economic or political situation in a part or parts of the world where Boto Strategic or any of its subsidiaries carries on their respective businesses or where the Boto Business is carried on; or

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- (iii) not all of the conditions required for closing/completion of the credit agreement entered into between the Purchasers and The Hongkong and Shanghai Banking Corporation Limited relating to, inter alia, debt financing for the acquisition by the Purchasers of the Sale Shares, the GCL Loan, the Boto Business, the Boto Business Assets, are fulfilled or waived (or as the case may be) by the parties thereto in accordance with the terms and conditions set out therein; or
- (iv) if Boto Company fails to observe and comply with the provisions of the New Disposal Agreement in relation to the conduct of the Boto Business before the date of Completion or the Company fails to observe and comply with, or fails to procure the compliance with, the provisions of the New Disposal Agreement in relation to the conduct of the business of Boto Strategic and its subsidiaries before the date of Completion; or
- (v) if the Company and Boto Company fail to observe and perform all of the covenants and agreements required to be performed or caused to be performed by them under the New Disposal Agreement between the date of the New Disposal Agreement and the Completion pursuant to certain provisions of the New Disposal Agreement (including, those relating to the granting of reasonable access to, among others, the Purchasers and their advisers to the employees, premises, plant, machinery, books of account and records and documents of Boto Strategic and its subsidiaries and the Boto Business),

the Purchasers shall be entitled to rescind the New Disposal Agreement without liability to any of the Vendors.

If, before Completion, the New Subscription Agreement has not been completed in accordance with its terms, each of the parties to the New Disposal Agreement shall be entitled to rescind the New Disposal Agreement without liability to any of the other parties save for the obligation of the Vendors or the Purchasers (as the case may be) to reimburse the Purchasers or the Vendors (as the case may be) for such other parties' fees, costs and expenses in certain instances in the event that completion of the New Subscription Agreement does not take place in accordance with its terms solely due to the default on the part of Topway (on the one hand) or the limited partnerships affiliated with Carlyle (on the other hand) (as the case may be) to comply with their respective obligations thereunder.

THE NEW BOTO PROPERTY DISPOSAL AGREEMENT

Date : 10th July, 2002

Parties : (i) Boto Company (in its capacity as the vendor of the Boto Property); and
(ii) GFEL (in its capacity as the purchaser of the Boto Property).

Asset to be disposed of:

The Boto Property comprises Units 1 to 12 on 17th Floor of Eight Commercial Tower, which is located at 8 Sun Yip Street, Chai Wan, Hong Kong. The Boto Property was valued at

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HK\$13.5 million as at 20th February, 2002 and 30th July, 2002, respectively, by FPDSavills, an independent property valuer. The letters from FPDSavills setting out their opinions on the value of the Boto Property is set out in Appendix I to this circular.

Consideration:

The consideration for the Boto Property amounts to HK\$13.5 million (which remains unchanged from the amount earlier contemplated under the Boto Property Disposal Agreement), which was determined based on the independent valuation and after arm's length negotiation between the parties. The consideration will be payable in cash at the time of completion of the New Boto Property Disposal Agreement.

Condition:

Completion of the New Boto Property Disposal will take place immediately after, and on the same date as, the completion of the New Disposal Agreement.

Reason for the New Boto Property Disposal Agreement:

Based on the audited accounts of the Group as at 31st March, 2002, the Company will record a loss of approximately HK\$40.9 million on disposal of the Boto Property. The Boto Property has been used in connection with the Businesses. In view of the larger disposal contemplated by the New Disposal Agreement, the Board considers that it will be beneficial to the Purchasers for the Boto Property to be sold to GFEL.

USE OF PROCEEDS

The net proceeds from the New Disposal Agreement and the New Boto Property Disposal Agreement are expected to amount to about HK\$1,069 million. The Directors propose to distribute HK\$894,380,500 (or HK\$0.26 per Share) to the Shareholders as Special Cash Dividend after Completion. The balance of the proceeds of approximately HK\$174.6 million will be retained for working capital and future investment purposes. The Directors have not identified any specific investments at present. Nevertheless, any such investments, if materialised, will be disclosed and/or subject to the approval of the Shareholders in accordance with the provisions of the Listing Rules.

The Company and such of the companies which will continue to be its subsidiaries after the Completion will, following Completion, maintain net assets of not less than the amounts described in the sub-paragraph headed "Net asset value undertaking" under the paragraph headed "The New Disposal Agreement" above in accordance with the terms of the New Disposal Agreement. The Directors will, after taking into consideration the working capital requirements and the repayment of any outstanding bank liabilities of the Group, ensure that sufficient amount of funds will be retained for (i) its 25% interest in the Businesses; (ii) the furtherance and development of the computer graphics animation business; and (iii) future investment purposes, after the distribution of the Special Cash Dividend. The Company does not presently have any specific plans for future major investments nor does it presently have any intention to make further major disposals or acquisitions in the near future.

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SPECIAL CASH DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

Subject to Completion and approval by the Shareholders of the Share Premium Transfer and the Special Cash Dividend, the Directors propose to declare a special cash dividend of HK\$0.26 per Share to Shareholders whose names appear on the register of members on 30th August, 2002. Completion is expected to take place on 22nd August, 2002, following which the Special Cash Dividend will be paid to the qualifying Shareholders on or before 4th September, 2002.

To determine entitlements to the Special Cash Dividend, the register of members of the Company will close during the period from 28th August, 2002 to 30th August, 2002, both dates inclusive. The latest time for trading in the Shares cum entitlement to the Special Cash Dividend would be 4:00 p.m. on 23rd August, 2002. In order to qualify for the Special Cash Dividend, Shareholders who are not already on the register of members are required to lodge their share certificates, together with the relevant forms of transfer, to the branch share registrars of the Company in Hong Kong, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, no later than 4:00 p.m. on 27th August, 2002.

In connection with the Special Cash Dividend, the Board proposes to:–

- (i) transfer of an amount of HK\$276,359,963.07 from the share premium account of the Company to the contributed surplus of the Company;
- (ii) utilise an amount of HK\$429,688,963.07 from the contributed surplus of the Company; and
- (iii) utilise an amount of HK\$464,691,536.93 from the retained profits of the Company.

The Share Premium Transfer (which is discussed further below) and the utilization of the contributed surplus of the Company requires Shareholders' approval under the Companies Act and the bye-laws of the Company. Accordingly, the Special Cash Dividend is subject to the approval of the Shareholders.

It should be noted that the Special Cash Dividend is conditional upon the Completion and the Share Premium Transfer coming into effect.

It is strongly recommended that any Shareholder or other person dealing in the Shares and is in any doubt about his or her position should seek advice from his or her professional adviser.

SHARE PREMIUM TRANSFER

To facilitate the payment of the Special Cash Dividend, the Company will need to transfer a sum of HK\$276,359,963.07 from the share premium account to the contributed surplus of the Company. The said amount to be transferred represents the entire amount standing to the credit of the share premium account of the Company as at the Latest Practicable Date and the transfer requires compliance with the capital reduction requirements of the Companies Act and approval of the Shareholders by way of special resolution under the bye-laws of the Company.

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Upon the Share Premium Transfer becoming effective, the share premium account of the Company will be reduced by HK\$276,359,963.07. The Share Premium Transfer does not by itself alter the financial condition of the Group as a whole. However, upon the payment of the Special Cash Dividend, the net asset value of the Group will be reduced by HK\$894,380,500.

The Share Premium Transfer and the subsequent payment of the Special Cash Dividend are represented by surplus funds of the Company. As such, the Directors do not expect the reduced level of net assets to create any difficulty for the continued smooth operation of the Group's businesses after Completion. The Directors believe that none of the remaining operations of the Group after Completion will be materially and adversely affected, by reason of the Share Premium Transfer and the subsequent payment of the Special Cash Dividend.

LETTER FROM THE BOARD

FINANCIAL EFFECTS OF THE NEW DISPOSAL AND THE NEW BOTO PROPERTY DISPOSAL AND DISTRIBUTION OF SPECIAL CASH DIVIDEND ON THE GROUP

Set out below is the pro forma statement of the adjusted net tangible asset/net asset value of the Group immediately before and following Completion and after distribution of the Special Cash Dividend:

	<i>NTA</i> <i>HK\$ million</i>	<i>NAV</i> <i>HK\$ million</i>
Audited consolidated net assets of the Group as at 31st March, 2002	875.1	875.1
<i>Less:</i> Intangible assets, being motion picture production in progress and goodwill	(27.2)	–
Audited consolidated net tangible asset/net asset value of the Group as at 31st March, 2002	847.9	875.1
<i>Less:</i> Net tangible assets proposed to be disposed of under the New Disposal Agreement and New Boto Property Disposal Agreement	(841.9)	(841.9)
	6.0	33.2
<i>Add:</i> Consideration received from the New Disposal	1,064.0	
Consideration received from the New Boto Property Disposal	13.5	
Pre-completion dividend	92.5	1,170.0
	1,176.0	1,203.2
<i>Less:</i> Estimated expenses in connection with the New Disposal and New Boto Property Disposal	(8.5)	(8.5)
Pro forma adjusted net tangible asset/net asset value of the Group immediately following Completion and before distribution of Special Cash Dividend	1,167.5	1,194.7*
<i>Less:</i> Special Cash Dividend	(894.4)	(894.4)
Pro forma adjusted net tangible asset/net asset value of the Group immediately following Completion and after distribution of Special Cash Dividend	273.1	300.3
<i>Less:</i> Unrealised surplus arising on the New Disposal and New Boto Property Disposal (<i>note 1</i>)	(82.0)	(82.0)

* This amount will be reduced to HK\$1,112.7 million after deducting the unrealised surplus of HK\$82.0 million as referred to in the pro forma balance sheet of the Group upon Completion as shown on Page 15 of this circular.

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	NTA	NAV
	<i>HK\$ million</i>	<i>HK\$ million</i>
Pro forma adjusted net tangible asset/net asset value of the Group immediately following Completion and after distribution of Special Cash Dividend and after elimination of unrealised surplus arising on the New Disposal and New Boto Property Disposal	<u>191.1</u>	<u>218.3</u>
Pro forma adjusted net tangible asset/net asset value per Share immediately following Completion and before distribution of Special Cash Dividend and		
– before elimination of unrealised surplus on the New Disposal and New Boto Property Disposal (<i>note 2</i>)	<u>HK\$0.339</u>	<u>HK\$0.347</u>
– after elimination of unrealised surplus on the New Disposal and New Boto Property Disposal (<i>note 3</i>)	<u>HK\$0.316</u>	<u>HK\$0.323</u>
Pro forma adjusted net tangible asset/net asset value per Share immediately following Completion and after distribution of Special Cash Dividend		
– before elimination of unrealised surplus on the New Disposal and New Boto Property Disposal (<i>note 4</i>)	<u>HK\$0.079</u>	<u>HK\$0.087</u>
– after elimination of unrealised surplus on the New Disposal and New Boto Property Disposal (<i>note 5</i>)	<u>HK\$0.056</u>	<u>HK\$0.063</u>

Notes:

1. As the New Disposal and New Boto Property Disposal represent transactions between the Group and its associated company in which the Group has a 25% interest, the unrealised portion (i.e. 25%) of the surplus arising from such transactions is eliminated herein in accordance with the requirement of Statement of Standard Accounting Practice No. 10 “Accounting for investments on associates” issued by the Hong Kong Society of Accountants. The amount was determined as HK\$(1,170.0 – 841.9) million x 25%, giving approximately HK\$82.0 million.
2. This amount is calculated based on the pro forma adjusted net tangible asset/net asset value of the Group of the HK\$1,167.5 million/HK\$1,194.7 million, immediately following Completion and before distribution of Special Cash Dividend but before deducting the unrealised surplus arising on the New Disposal and the New Boto Property Disposal of HK\$82.0 million and on the 3,439,925,000 Shares in issue at the Latest Practicable Date.
3. This amount is calculated based on the pro forma adjusted net tangible asset/net asset value of the Group of the HK\$1,085.5 million/HK\$1,112.7 million immediately following Completion and before distribution of Special Cash Dividend and after deducting the unrealised surplus arising on the New Disposal and the New Boto Property Disposal of HK\$82.0 million and on the 3,439,925,000 Shares in issue at the Latest Practicable Date.
4. This amount is calculated based on the pro forma adjusted net tangible asset/net asset value of the Group of the HK\$273.1 million/HK\$300.3 million immediately following Completion and after distribution of Special Cash Dividend but before deducting the unrealised surplus arising on the New Disposal and the New Boto Property Disposal of HK\$82.0 million and on the 3,439,925,000 Shares in issue at the Latest Practicable Date.
5. This amount is calculated based on the pro forma adjusted net tangible asset/net asset value of the Group of the HK\$191.1 million/HK\$218.3 million immediately following Completion and after distribution of Special Cash Dividend and after deducting the unrealised surplus arising on the New Disposal and the New Boto Property Disposal of HK\$82.0 million and on the 3,439,925,000 Shares in issue at the Latest Practicable Date.

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Set out below is the pro forma balance sheet of the Group immediately before and after Completion and payment of the Special Cash Dividend:–

	As at 31st March, 2002 <i>HK\$ million</i>	Upon Completion <i>HK\$ million</i>	Upon Completion and after payment of Special Cash Dividend <i>HK\$ million</i>
Non-current Assets			
Property, plant and equipment	612.1	26.5	26.5
Motion picture production in progress	24.4	24.4	24.4
Goodwill	2.8	2.8	2.8
Investments in securities	1.2	–	–
Interest in an associated company	–	88.0	88.0
<i>Less: unrealised surplus</i>	–	(82.0)	(82.0)
	640.5	59.7	59.7
Current Assets			
Inventories	244.6	–	–
Trade and other receivables	67.3	8.2	8.2
Tax recoverable	17.2	5.0	5.0
Bank deposits	80.3	–	–
Bank balances and cash	75.7	1,083.6	180.7
	485.1	1,096.8	193.9
Current Liabilities			
Trade and other payables	110.8	14.6	6.1
Tax payable	5.6	–	–
Borrowings - due within one year	76.2	16.8	16.8
	192.6	31.4	22.9
Net Current Assets	292.5	1,065.4	171.0
Total Assets less Current Liabilities	933.0	1,125.1	230.7
Minority Interests	(0.7)	(0.7)	(0.7)
Non-current Liabilities			
Borrowings – due after one year	56.7	11.2	11.2
Deferred taxation	0.5	0.5	0.5
	57.2	11.7	11.7
	875.1	1,112.7	218.3
Capital and Reserves			
Share capital	68.8	68.8	68.8
Reserves	806.3	1,043.9	149.5
	875.1	1,112.7	218.3

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THE NEW SUBSCRIPTION AGREEMENT

Date : 10th July, 2002

Parties : (i) 5 limited partnerships affiliated with Carlyle

The Carlyle Group, based in Washington D.C., is one of the largest private global investment firms in the world with more than US\$12.5 billion of committed capital under management. Carlyle originates, structures and acts as lead equity investor in management-led buyouts, strategic minority equity investments, equity private placements, consolidations and buildups, and growth capital financings. Since its inception, Carlyle has invested more than US\$6.4 billion of equity in 233 corporate and real estate transactions with an aggregate acquisition value of over US\$18 billion. Save for the fact that the limited partnerships affiliated with Carlyle will be shareholders of GIHL, Carlyle is independent of, and not connected with, the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates;

(ii) Topway; and

(iii) GIHL.

Conditions:

The New Subscription Agreement is subject to:-

- (i) the New Disposal Agreement becoming unconditional in all respects; and
- (ii) the Purchasers not exercising their rights to terminate the New Disposal Agreement on or before the date which is 3 business days after the New Disposal Agreement becoming unconditional in all respects.

If the above conditions have not been fulfilled by 30th September, 2002, the New Subscription Agreement shall from such date have no effect and no party shall have any liability under it (without prejudice to the rights of any of the parties in respect of antecedent breaches).

Shares to be subscribed and consideration:

Subscriber	No. of GIHL Shares	%	Consideration	
			<i>US\$</i>	<i>HK\$ million equivalent</i>
Limited partnerships affiliated with Carlyle (Note)	74,999	75	33,911,366	264
Topway	25,000	25	11,303,789	88
Total	99,999	100	45,215,155	352

Note: One of the limited partnerships affiliated with Carlyle currently holds 1 GIHL Share.

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Topway will finance the subscription from the Group's internal resources and bank borrowings which shall be repaid using part of the Consideration upon Completion. The subscription by Topway of a 25% equity interest in GIHL will enable the Group to retain a 25% interest in the Businesses. The Group has no present intention to dispose of its 25% interest in GIHL.

THE NEW SHAREHOLDERS' AGREEMENT

Date : 10th July, 2002

Parties : (i) the 5 limited partnerships affiliated with Carlyle;
(ii) Topway;
(iii) GIHL; and
(iv) the Company.

The purposes of the New Shareholders' Agreement are (i) to record the terms and conditions pursuant to which the limited partnerships affiliated with Carlyle and Topway will hold the GIHL Shares; (ii) to regulate their relationship with each other as shareholders of GIHL; and (iii) to regulate as between shareholders certain aspects of the affairs of the GIHL Group.

Condition:

The New Shareholders' Agreement is subject to completion of the New Subscription Agreement taking place.

If the said condition has not been fulfilled by 30th September, 2002 (or such other date as the parties to the agreement may agree in writing), the New Shareholders' Agreement shall from such date have no effect and no party shall have any liability under it (without prejudice to the rights of any of the parties in respect of antecedent breaches).

Business:

Unless otherwise agreed by the parties to the New Shareholders' Agreement, the business of the GIHL Group shall comprise the business of the manufacture and sale of artificial Christmas trees, Christmas festive products and related accessories and leisure furniture products.

Board of directors and management:

- Maximum number of directors: 9
- Initial number of directors: 7
- Number of directors which Topway is entitled to appoint or remove:
 - (i) where Topway holds 20% or more of GIHL Shares in issue – 3; or
 - (ii) where Topway holds less than 20% of GIHL Shares in issue – 1.

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- The 3 initial directors to be appointed by Topway are:
 - (i) Mr. Kao;
 - (ii) Mr. Lam; and
 - (iii) Ms. Vivian Kao.
- Number of directors which the limited partnerships affiliated with Carlyle is entitled to appoint or remove:
 - (i) where Carlyle holds 51% or more of GIHL Shares in issue – a majority of the board of GIHL; or
 - (ii) where Carlyle holds less than 51% of the GIHL Shares in issue – such number of directors which will equal to the proportion of the total number of directors which the shareholding of the limited partnerships affiliated with Carlyle bears to the total number of GIHL Shares in issue from time to time.
- The chairman of the Board shall be appointed by a simple majority of the board of GIHL and shall have no casting vote. The chairman of the Board shall be Mr. Kao until the earlier of (i) termination of the Consultancy Services Agreement; or (ii) Mr. Kao ceasing to be a Nominated Person (as defined in the Consultancy Services Agreement) under the Consultancy Services Agreement.

Dividend:

For each financial year after the financial year ending 31st March, 2006, the distributable profits of each member of the GIHL Group (other than GIHL) are to be distributed up to GIHL by way of dividend and GIHL is to distribute by way of dividend not less than 33% of its profits available for distribution after appropriation of prudent and proper reserves including allowance for future working capital and provision of tax. Such distributions shall be made within 120 days after the end of the financial year in question or, if later, 30 days after the date of the auditors' report on the accounts for the relevant period. Such distributions shall, however, be subject to any restrictions imposed by GIHL's bank lenders or otherwise on the GIHL Group.

Anti-dilution rights:

If GIHL wishes to issue any new GIHL Shares (otherwise than pursuant to, amongst other things, GIHL's share option scheme or any bona fide acquisition of another corporation), each of Topway and the 10% Shareholder shall have the right to subscribe for such number of new GIHL Shares sufficient to enable it to maintain its percentage of shareholding interest in GIHL on the same terms as the proposed new issue of GIHL Shares.

The subscription by Topway of additional GIHL Shares pursuant to this anti-dilution right may be subject to the approval of the Shareholders, if required under the Listing Rules. If such Shareholders' approval is not obtained within 75 days from the date of receipt by Topway of the notice of the proposed new issue of GIHL Shares from GIHL, then Topway will be deemed to have declined the exercise of such anti-dilution rights.

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Transfer of shares:

The disposal of GIHL Shares is subject to the following restrictions:–

- (i) during the period of 3 years from the date on which the New Shareholders' Agreement becomes unconditional, Topway shall not be permitted to dispose of any GIHL Shares or any interest therein other than, among other things, between members of the Group;
- (ii) Topway and the limited partnerships affiliated with Carlyle have agreed to maintain not less than 17% and 51% of the GIHL Shares in issue, respectively; and
- (iii) the right of first offer, the right of first refusal, the co-sale right and the drag-along right as discussed below.

Right of first offer:

If any of the limited partnerships affiliated with Carlyle, Topway or 10% Shareholder (the "Proposed Transferor") has an intention to dispose of any GIHL Shares and does not have an offer from any person, the Other Shareholders of GIHL shall have a right of first offer with respect to such disposal.

The right of first offer is exercisable by issuing an irrevocable offer within 30 days after the Proposed Transferor has delivered its transfer notice to the Other Shareholders (save that any offer by Topway hereunder may be made subject to the approval of the Shareholders (as discussed under the sub-paragraph headed "Shareholders' approval" below).

Right of first refusal:

If any Proposed Transferor proposes to dispose of any GIHL Shares held by it to a person who has made it an offer, then the Other Shareholders shall have a right of first refusal with respect to such disposal.

The right of first refusal is exercisable by issuing an irrevocable acceptance notice within the period of 20 days after receipt of the unconditional transfer notice by the proposed transferor (save that any acceptance notice by Topway hereunder may be made subject to the approval of the Shareholders (as discussed under the sub-paragraph headed "Shareholders' approval" below). In case of competition between the other GIHL shareholders for the GIHL Shares being offered by the Proposed Transferor, such shares will be allocated to the other GIHL shareholders in proportion to their shareholdings in GIHL.

Co-sale right:

If any Proposed Transferor proposes to dispose of any GIHL Shares held by it to any third party pursuant to an offer in relation to 10% or more of the GIHL Shares in issue, after complying with the provisions relating to the right of first offer or right of first refusal (as the case may be), then the Other Shareholders shall have a right to request the proposed seller to require such third party to purchase its GIHL Shares on the same terms being offered by such third party to the Proposed Transferor.

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The co-sale right is exercisable by issuing an irrevocable acceptance notice within the period of 15 days after receipt of the co-sale offer (save that any acceptance notice by Topway hereunder may be made subject to the approval of the Shareholders (as discussed under the subparagraph headed “Shareholders’ approval” below)).

If the Other Shareholders exercise their co-sale right, then the number of GIHL Shares to be sold by the Proposed Transferor and the co-selling GIHL shareholder shall be the proportion the number of shares specified in the co-sale offer bears to the number of GIHL Shares held by the Proposed Transferor or the co-selling GIHL shareholders (as the case may be) divided by the total number of GIHL Shares held by the Proposed Transferor and the co-selling GIHL shareholder.

Shareholders’ approval:

The New Shareholders’ Agreement recognises that in certain circumstances, the exercise by Topway of its right of first offer or right of first refusal or co-sale right (as the case may be) may be subject to the approval of the Shareholders (if required under the Listing Rules). However, if the Company fails to obtain the relevant Shareholders’ approval within the time period stipulated under the New Shareholders’ Agreement (which varies depending on the manner the rights are exercised as discussed below), then Topway would be deemed to have waived its right of first offer or right of first refusal or co-sale right (as the case may be) and Topway’s GIHL Shares could be subject to the drag-along right of the Majority Shareholder as discussed below.

Time limits for obtaining Shareholders’ approvals

The applicable time periods within which the Shareholders’ approval should be obtained are as follows:-

1. Where separate meetings of the Shareholders were convened for the exercise of the right of first offer and the co-sale right, Topway should obtain Shareholders’ approval for the exercise of its co-sale right within 6 months from the date of receipt of the transfer notice which triggered its right of first offer (provided that the 6-month period shall be extended by a time period equivalent to the period commencing from the date of meeting of the Shareholders at which the Shareholders voted on the exercise of the right of first offer and ending on the date of receipt by Topway of the co-sale offer).
2. Where no meeting of the Shareholders was convened for the exercise of the right of first offer, Topway should obtain Shareholders’ approval for the exercise of its co-sale right within 5 months from the date of receipt of the transfer notice which triggered its right of first offer, provided that the 5-month period shall be extended by a time period equivalent to the period commencing from the earlier of:-
 - (i) the date on which Topway notifies the Proposed Transferor that it does not intend to exercise the right of first offer;
 - (ii) the date falling on the last day of the 30-day offer period after the Proposed Transferor has given its transfer notice which triggered the right of first offer;
or
 - (iii) the date on which Topway receives a rejection of its offer made pursuant to Topway’s exercise of the right of first offer,

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and ending on the date of receipt by Topway of a co-sale offer procured by the Proposed Transferor.

3. In all other situations, Topway should obtain the Shareholders' approval within 4 months from the date of the transfer notice given by the Proposed Transferor pursuant to the right of first offer or the right of first refusal (as the case may be).

As stated above, if Topway fails for any reason to obtain the Shareholders' approval within the above time periods, it would be deemed to have waived its right of first offer, right of first refusal and/or co-sale right under the New Shareholders' Agreement.

Drag-along without further Shareholders' approval

It is inherent and a consequence of the New Shareholders' Agreement that the Majority Shareholder would have a drag-along right (as described below) in respect of the GIHL Shares held by other GIHL shareholders if the other GIHL shareholders (including Topway) have not exercised or are otherwise deemed to have waived their right of first offer, right of first refusal and co-sale right under the New Shareholders' Agreement. It should be noted that the Company would have no control over, nor would the Shareholders have a right to vote on, the Majority Shareholder's exercise of its drag-along right at that stage. If the drag-along right is exercised against the GIHL Shares held by Topway, then the Group's interest in GIHL would be reduced.

However, the apparent severity of the drag-along procedure should be considered in light of the various safeguards in favour of the minority GIHL shareholders in this regard, including but not limited to (i) the drag-along right being exercisable only after the other GIHL shareholders have exhausted their right of first offer or right of first refusal (as the case may be) and co-sale right under the New Shareholders' Agreement and (ii) (in the case of an unsolicited Majority Offer (as defined in the paragraph headed "Drag-along right" below)) a minimum floor price of 5 times the consolidated net income and earnings of the GIHL Group based on the latest available audited accounts.

Drag-along right:

Where a shareholder or a group of shareholders of GIHL holding in aggregate more than 50% of GIHL Shares in issue (a "Majority Shareholder") receives an offer from a bona fide third party to purchase more than 50% of the GIHL Shares in issue ("Majority Offer") and either:

- (i) if the Majority Offer was solicited by the Majority Shareholder and:
 - (a) the other shareholder(s) has not (or is deemed not to have) exercised its right of first offer or co-sale right; and
 - (b) the solicited Majority Offer was received following the appointment by GIHL of an independent investment bank of international repute which conducted a normal sale process in respect of GIHL in accordance with the usual practices of such independent investment bank; or
- (ii) if the Majority Offer was unsolicited by the Majority Shareholder and:
 - (a) the other shareholder(s) has not (or is deemed not to have) exercised its right of first refusal or co-sale right; and

LETTER FROM THE BOARD

- (b) the total consideration payable under the unsolicited Majority Offer represents more than 5 times the consolidated net income and earnings of the GIHL Group based on the latest audited accounts available at the relevant time; or
 - (c) following receipt of the unsolicited Majority Offer, GIHL appointed a reputable and independent investment bank selected by agreement between the Majority Shareholder and the other shareholder(s) to conduct a normal sale process in respect of GIHL in accordance with the usual practices of such independent investment bank and within 60 days of the commencement of such sale process no offer of GIHL Shares was received by such independent investment bank or the Majority Shareholder which was on more favourable terms than the Majority Offer; and
- (iii) the sum of the number of GIHL Shares to be sold by the other shareholder(s) of GIHL pursuant to the exercise of its co-sale right and the number of GIHL Shares proposed to be sold by the Proposed Transferor is less than the number of GIHL Shares specified in the Majority Offer;

then the Majority Shareholder shall have the right, at its sole discretion, to require all of the other shareholders of GIHL to sell its GIHL Shares to the proposed purchaser to the extent that there is any shortfall between the number of GIHL Shares to which the Majority Offer related and the total number of GIHL Shares held by the Majority Shareholder and the other shareholders of GIHL who have exercised its co-sale right.

The New Shareholders' Agreement further provides that in such circumstances, (i) the sale of GIHL Shares by the Majority Shareholder to the proposed purchaser must be bona fide; (ii) the sale by the other GIHL shareholders who are subject to the exercise of the drag-along right must be on the same terms as the purchase of GIHL Shares by the proposed purchaser from the Majority Shareholder; and (iii) the sale of GIHL Shares pursuant to such exercise of the drag-along right shall be completed simultaneously with the sale of GIHL Shares by the Majority Shareholder.

It should be noted that under the New Shareholders' Agreement, the exercise of the drag-along right by the Majority Shareholder after the other shareholders of GIHL have (or are deemed to have) rejected or waived their right of first offer or right of first refusal or co-sale right (as the case may be), is not subject to any further approval of the Shareholders at the relevant time of the Majority Offer.

Default share transfer:

The following highlights the major events of default under the New Shareholders' Agreement:-

- (i) A GIHL shareholder commits a material breach of the New Shareholders' Agreement and (if capable of remedy) fails to remedy the same (or establish plans to remedy the same in a manner satisfactory to the non-defaulting parties) within thirty days of notice to do so being given by any other GIHL shareholder.
- (ii) There is a change in the ownership or control, direct or indirect, of the shares carrying more than 50% of the voting rights attaching to the issued share capital of a GIHL shareholder or any holding company of a GIHL shareholder, except in the case of Topway or its permitted transferee (as the case may be) where such change in ownership or control is as a result of a transfer of shares to a company which is another member of the Group.

LETTER FROM THE BOARD

- (iii) It shall be an event of default in relation to Topway or its permitted transferee (as the case may be) if, among other things:–
- (a) Mr. Kao ceases to be a director of Topway or the Company (otherwise than by reason of Mr. Kao’s death or mental incapacity); or
 - (b) Mr. Kao ceases to be a discretionary beneficiary of The Cheerco Trust or of a discretionary trust or any other form of trust of which Mr. Kao and members of his immediate family from time to time are the primary discretionary objects or primary beneficiaries (as the case may be) and which ceases to directly or indirectly own or control more than 50% of Sunni (otherwise than by reason of Mr. Kao’s death); or
 - (c) The Cheerco Trust or such trust referred to in sub-paragraph (b) above (as the case may be) ceases to directly or indirectly own or control more than 50% of Sunni; or
 - (d) Sunni, Mr. Kao, The Cheerco Trust and any of such trust referred to in sub-paragraph (b) above together cease to directly or indirectly own or control more than 50% of the Company.

If an event of default occurs in relation to a GIHL shareholder, then the non-defaulting shareholders shall be entitled by notice in writing to the defaulting shareholder to require, amongst other things, that the defaulting shareholder shall not exercise its right to attend and vote at general meetings of GIHL and/or that the defaulting shareholder makes an offer to sell all of its GIHL Shares to the non-defaulting shareholders at a price per GIHL Share equal to the price per GIHL Share paid by the defaulting shareholder at the time it subscribed for or acquired its GIHL Shares.

The aforementioned events of default were agreed between the parties as part of the commercial terms of the New Shareholders’ Agreement and are considered by the Board to be fair and reasonable taking into consideration the fact that Mr. Kao is the major co-founder of, and a key personnel to the success of, the Businesses.

Sale of GIHL Shares on an initial public offer of GIHL Shares:

On an initial public offer of GIHL Shares (the “IPO”), each of the GIHL shareholders is entitled to sell the same proportion of GIHL Shares then held by them as the total number of GIHL Shares offered in the IPO represents in relation to the GIHL Shares then in issue, subject to any restrictions imposed by any bank lender or otherwise on the GIHL Group.

Employee share options:

There will be two employee share option schemes in respect of which options not exceeding 10% and 5% of the GIHL Shares then in issue (on a fully diluted basis) may be granted (hereinafter known as “Scheme A” and “Scheme B”, respectively). The participants of the two employee share option schemes are the directors and employees of GIHL and its subsidiaries, whom may include the directors of GIHL who are appointed by Topway. The period within which the GIHL Shares must be taken up under Scheme A and Scheme B are (i) not more than 1 year from the date of

LETTER FROM THE BOARD

grant of the option and (ii) not more than 10 years from the date which the option vests, respectively. Share options under Scheme A may be granted within 12 months from the Completion under the New Disposal Agreement and share options under Scheme B may be granted within 18 months after Completion under the New Disposal Agreement.

The subscription price for the options under Scheme A and Scheme B are (i) the price per GIHL Share paid by the limited partnerships affiliated with Carlyle under the New Subscription Agreement and (ii) 30% of the price paid by the limited partnerships affiliated with Carlyle under the New Subscription Agreement, respectively. Share options under Scheme A do not have any vesting schedule. Share options under Scheme B will vest over 5 years from the date of grant depending on the achievement of certain financial targets set out in the New Shareholders' Agreement.

Protection of the business:

The Company and Topway covenant that, until the expiration of 3 years from the date of termination of the New Shareholders' Agreement, it shall not directly or indirectly carry on or be engaged or interested in a competing business save that it may hold for investment up to 5% of any class of securities of any competing business whose securities are quoted or dealt in or on a recognised stock exchange.

Guarantee:

The Company unconditionally and irrevocably guarantees the performance and observance by Topway of its obligations under the New Shareholders' Agreement as well as the New Subscription Agreement.

Termination:

The New Shareholders' Agreement shall remain in full force and effect until the earlier of:-

- (i) the dissolution of GIHL;
- (ii) in relation to any shareholder of GIHL, after such shareholder shall have ceased to be a shareholder of GIHL;
- (iii) the agreement of all relevant parties to terminate the New Shareholders' Agreement;
or
- (iv) the occurrence of an IPO.

LETTER FROM THE BOARD

THE CONSULTANCY SERVICES AGREEMENT

Date : To be executed on Completion

Parties : (i) GFEL;
(ii) the Company

Appointment:

The Company will be appointed by GFEL to act as consultant. The Company shall procure (either directly and/or through another member of the Group) that four nominated persons, namely Mr. Kao, Mr. Lam, Ms. Vivian Kao and Mr. Kui (unless otherwise agreed by the parties in writing), to act as the Chairman and Managing Director, Deputy Managing Director, Marketing Director and Production Director of GIHL, respectively, to perform the usual duties which would be expected to be performed by such persons in his/her capacity as an employee of the Group in respect of the Businesses as carried out by the Company prior to the date of the Consultancy Services Agreement. The nominated persons will remain in the employment of the Group and will not be treated as employees of any member of the GIHL Group for any purpose. It is anticipated that, for so long as Mr. Kao and Mr. Lam are nominated persons, each of them is required to spend such time as may be reasonably required for the proper performance of his share of the responsibilities in performing the Company's obligations under the Consultancy Services Agreement. For the other nominated persons, their agreed hours of work will be normal business hours and such other hours as GFEL may consider to be reasonably required for the proper performance of his/her share of the responsibilities in performing the Company's obligations under the Consultancy Services Agreement.

Term:

The term of Consultancy Services Agreement is 3 years commencing from the date of Completion, unless earlier terminated in accordance with the terms of the Consultancy Services Agreement.

Fees:

The Company will receive (i) a monthly fixed fee of HK\$691,400 payable in arrears on the last day of each month; and (ii) a deferred fixed fee of HK\$2,939,400 which is payable in respect of each financial year on or before the Lunar New Year of the relevant financial year. The fixed fees under the Consultancy Services Agreement have been determined with reference to the anticipated management time cost of the human resources to be procured by the Company to the GIHL Group and shall be subject to annual review by mutual agreement of the Company and GFEL. In addition, the Company (not the nominated persons) is entitled to a discretionary fee which shall be determined by GIHL having regard to the financial performance of the GIHL Group. Any such discretionary fee shall be payable to the Company in respect of each financial year on or before 31st May immediately following the end of the relevant financial year.

Termination:

Either party shall be entitled to terminate the Consultancy Services Agreement by giving to the other party at least six months' prior notice in writing expiring not earlier than the expiry of three years from the commencement date of the appointment of the Company.

LETTER FROM THE BOARD

GFEL will be entitled to terminate the Consultancy Services Agreement if Topway or any member of the Group ceases to hold any GIHL Shares.

GFEL is entitled to serve notice on the Company advising that the Company no longer needs to procure the nominated person who is named in such notice to provide services under the Consultancy Services Agreement if the following events occur:-

- (i) the Company commits a serious or persistent breach of any term of the Consultancy Services Agreement solely due to the act or omission of a nominated person;
- (ii) the nominated person is guilty of conduct tending to bring himself/herself or any member of the GIHL Group into disrepute; or
- (iii) the nominated person persistently neglects, fails or refuses to carry out any of his/her share of responsibilities in performing the Company's obligations under the Consultancy Services Agreement,

and in such circumstances, the Company is required to pay to GFEL an amount equal to six months' of that part of the fixed fees which is attributable to that nominated person's share of the responsibilities in performing the Company's obligations under the Consultancy Services Agreement.

THE DEED OF TERMINATION

Date : 10th July, 2002

Parties : (i) the Company;
(ii) Boto Company;
(iii) GGCL; and
(iv) GFEL.

Agreement to be terminated:

Pursuant to the Deed of Termination, the Company and Boto Company agreed with GGCL and GFEL to terminate the Disposal Agreement in relation to the effective disposal by the Group of the Businesses to GGCL and GFEL and related agreements. The aforesaid agreements therefore ceased to have any effect and the obligations of the parties thereunder are released and they shall have no claim against each other.

THE CANCELLATION AGREEMENT

Date : 10th July, 2002

Parties : (i) Boto Company; and
(ii) GFEL.

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Agreement to be cancelled:

Pursuant to the Cancellation Agreement, Boto Company and GFEL mutually agreed to cancel the Boto Property Disposal Agreement in relation to the sale of the Boto Property by Boto Company to GFEL. The said agreement therefore ceased to have any effect and the obligations of the parties thereunder are released and they shall have no claim against each other.

REASONS FOR THE REVISED TRANSACTIONS

At present, the Group is engaged in the business of designing, manufacturing, marketing and distribution of Christmas festive products, which include artificial Christmas trees and other decorative accessories, and leisure furniture. The Group is also engaged in the business of design and production of computer graphics animation motion pictures.

The Board considers the Company's principal products, Christmas festive trees and accessories, and its key markets for them, in particular, the United States, are reaching a relatively mature stage with low growth prospects as compared to the computer graphics animation business with high growth potential. Profit margins on the Group's Christmas festive products had been steadily rising since the early years of Boto and had reached its peak performance between the years 1999 and 2000, but they are under pressure and are expected to decline as a result of the shift of the sales mix to lower profit-margin products, driven by the acute shift in consumers demand on product designs and the stronger bargaining position of major retail chains which are the Group's principal customers. There is a strong need for an extraordinary growth in sales volume in order to maintain the total profit contribution to the Group in the years to come.

The Group's largest customer, Kmart Corporation, went into Chapter 11 bankruptcy proceedings at the end of January 2002, leading to a significant reduction in its sales and forward orders for the Group's products for the coming year. The Group is striving with continuous efforts to capture additional sales from other customers and new accounts to compensate for the reduction in sales orders from Kmart Corporation, and it is hopeful that the Christmas sales in the current financial year may be maintained with no further deterioration in profit margin. Nevertheless, the Board considers this effort as a great challenge given the present matured stage of the global industry potentials.

The Group commenced its leisure furniture business about five years ago. Notwithstanding the substantial increase in sales volume, market competition has been intensive. The large manufacturers in the industry, mostly from the United States and Taiwan who have production bases in the mainland China, are dominating the global market. The Group is a small new player in the leisure furniture industry, and has so far strategised its marketing and distribution channels on the specialty stores which traditionally demand for limited volume of merchandise but with higher profit margins to the Group. In order for the Group to expand its market share from its current business base, it intends to expand its distribution channels beyond the specialty stores and to reach the mass retailers where the demand volume is often very significant but will generate much lower profit margins.

LETTER FROM THE BOARD

Since the announcement by the Company of the Disposal Agreement and the Boto Property Disposal Agreement, the Company, Carlyle and Mr. Kao have received some comments from certain Shareholders raising concerns that Mr. Kao should not be the only Shareholder to have a direct interest in GIHL. Having re-considered these concerns and after arm's length negotiation between the parties, the limited partnerships affiliated with Carlyle have now agreed to release their requirement of Mr. Kao investing 30% in GIHL and that the Company will retain a 25% interest in the Businesses through subscribing for a 25% equity interest in GIHL (through Topway). The limited partnerships affiliated with Carlyle will have the remaining 75% interest in GIHL. In light of the revision of the transactions, the parties to the Disposal Agreement, the Boto Property Disposal Agreement and the Subscription Agreement have agreed to terminate such agreements and to release each other from such agreements pursuant to the Deed of Termination, the Cancellation Agreement and the Subscription Agreement Deed of Termination, respectively.

The Directors consider that the New Disposal Agreement, the New Boto Property Disposal Agreement, the New Subscription Agreement, the New Shareholders' Agreement and the Consultancy Services Agreement will enable the Group to realise a significant portion of its investment in the Businesses while retaining a strategic interest in the Businesses. Upon Completion, about 120 existing employees of the Group who are engaged in the Businesses will be transferred to GFEL and Mr. Kao, Mr. Lam, Ms. Vivian Kao and Mr. Kui will remain as employees of the Group.

FUTURE INTENTION OF THE GROUP

Following Completion, the Group will retain a 25% interest in the Businesses while continuing to develop its computer graphics animation business, which is currently carried on by the Imagi Group. The Group commenced investment in the Imagi Group in October 2000. Since then, the Group has been actively pursuing its computer graphics animation business. The audited total assets of the Imagi Group amounted to approximately HK\$62.0 million as at 31st March, 2002. One of the executive Directors, Mr. Francis Kao, the son of Mr. Kao, is engaged in the management and operation of the Imagi Group on a full-time basis. Another executive director of Imagi, Mr. Tse, will be appointed to the Board upon Completion. The Imagi Group is now focusing its resources on the production of "Zentrix", a 3D computer graphics animated cartoon television series comprising 26 episodes of 26 minutes each.

The computer graphics animation production operations of the Imagi Group are carried out in a specially equipped studio in Chai Wan, Hong Kong, which has a gross floor area of 19,457 square feet, of which 15,906 square feet is leased from a company in which three Directors are interested at normal commercial terms at an aggregate annual rental of less than the HK\$1 million threshold stipulated under Rule 14.24(5) of the Listing Rules. The Imagi Group currently employs over 100 highly skilled engineers, animators, artists and multimedia professionals, who are engaged in various areas of 3D cartoon production, including story creation, 3D modeling, animation and rendering, synthetic character design and animation, virtual set design and integration, digital composite and layering, particle effects and pyrotechnics, rotoscoping and morphing.

The management of the Company has been actively marketing the distribution of "Zentrix". There have been continuous negotiations with distributors, television networks, toys companies, and distribution agencies from around the world for the licensing rights of "Zentrix". On 28th December, 2001, Imagi (Zentrix) Licensing B.V., a wholly-owned subsidiary of Imagi, entered into an international distribution license agreement (the "License Agreement") with an European broadcaster, M6 Droits Audio Visuels ("M6 DA") for broadcasting distribution rights on "Zentrix". M6 DA is the second largest media organisation in France in terms of advertisement revenue. It

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markets and sells its own production and co-productions worldwide and manages a portfolio of rights to these and other productions. It sells to television networks in more than 50 countries. Pursuant to the terms of the License Agreement, M6 DA has the exclusive license to distribute “Zentrix” throughout the regions of Eastern and Western Europe, Middle East and Africa in relation to video, pay per view, pay TV and free TV rights.

In June 2002, Imagi (Zentrix) Licensing B.V. entered into a derivative right licensing agreement (the “DRL Agreement”) with M6 Interactions, the consumer products division of M6 Group whereby the DRL Agreement gives M6 Interactions an exclusive right to license the derivative rights of “Zentrix” for use on, or in relation to, the manufacture, distribution and sale of authorized objects in the territory of Europe.

Under the terms of the above licensing agreements, the Imagi Group began to earn royalty income from the licensing of the distribution and broadcasting rights over its first animation production “Zentrix”. Turnover derived therefrom amounted to HK\$1.6 million for the year ended 31st March, 2002.

The management of the Imagi Group has also entered into negotiations, at various stages, with a number of internationally renowned industry players in respect of the setting-up of different distribution channels and various business opportunities in respect of Zentrix. In particular, the Imagi Group is at present negotiating a license agreement with one of the largest electronic gaming and toys companies in the world for the territory of Japan on “Zentrix” covering the various aspects of licensing rights in respect of, among others, broadcasting, toys and merchandising, DVD/video and television games.

The first success of “Zentrix” was seen in the 35th US International Film and Video Festival held in Los Angeles in June 2002 where “Zentrix” received the “Gold Camera Award” in the Animation: Computer category. The festival is one of two international competitions operated under the auspices of the United States Festival Association, and the Award is one of the world’s leading events devoted to the selection and recognition of outstanding business, television, documentary, industrial, information, and entertainment productions. 1,500 entries received from 33 nations were assessed and reviewed by an executive committee composed of senior advisors headed up by the festival chairman to assure a consistent, uniformly high level of quality among the winners.

Further, “Zentrix” was nominated as the “Best Series for Children of the Year” in the Pulcinella Awards 2002 at the Cartoons on the Bay Festival held in Positano, Italy in April 2002. Cartoons on the Bay Festival is an international festival and a conference on television animation in Europe. Entrants, including TV series, TV movies, shorts and web programmes, from all over the world competed for 40 nominations – five programmes for each of the eight different categories – at the Pulcinella Awards 2002 where a total of 10 statuettes were awarded by a prestigious international panel of judges from some of the most respected animation houses and publications and the major international TV channels.

LETTER FROM THE BOARD

The Group is committed to establishing the Imagi Group as one of the leaders in the field of digital entertainment business in Asia and in the world, and has identified three key business strategies for the medium term in order to achieve this corporate objective in the Asian region:

(i) To become one of the leading 3D computer graphics animated cartoon studios in Asia

The Imagi Group aims to design and produce more high quality 3D computer graphics animated TV cartoon series and co-produce future selected titles with major Japanese and Hollywood studios.

(ii) To become a leading full-service project management house in the field of 3D and 2D animation in Japan

The Imagi Group plans to establish a full-service project management house in Japan to manage the licensing rights of the Imagi Group's 3D and 2D animation in Japan and other parts of Asia, especially Hong Kong.

(iii) Strategic investments

The Imagi Group intends to look actively for computer graphics animations or other entertainment related projects within Asia which could create synergies with its existing operations and which are "in-line" with its strategies for long term investment and for furtherance of the Imagi Group's business activities.

The Hong Kong Government is supportive of innovation and technology development in Hong Kong. The Innovation and Technology Commission was set-up in July 2000 with the mission to spearhead Hong Kong's drive to become a world-class, knowledge-based economy. The digital entertainment industry has been identified as one of the potential industries for further development. With the support of the Hong Kong Government and the increasing application of digital and interactive technologies in various spheres of life (such as education and communication), the Directors are confident about the future development and prospects of the Imagi Group.

Upon Completion, the Group will consider investing into other businesses should suitable opportunities arise. Nevertheless, the Group does not presently have any specific plans for future major investments nor does it presently have any intention to make further major disposals or acquisitions in the near future.

PROPOSED CHANGES IN DIRECTORSHIP

It is currently expected that upon Completion, two of the existing Directors (namely, Mr. Kui and Ms. Tsen Yun Lei, Liliانا) will resign from the Board. Mr. Kao, the Chairman of the Board, Mr. Lam, the Deputy Managing Director and Mr. Francis Kao will continue to act as executive Directors in their existing positions. Mr. Tse will join the Board as executive Director. The two current independent non-executive Directors, namely Mr. Alexander Reid Hamilton and Mr. Oh Kok Chi, together with the other non-executive Director, Mr. Zhuo Fu Min, will remain in office.

LETTER FROM THE BOARD

Set out below is the background and experience of Mr. Tse:

Mr. Tse Chi Man, Terry, is the Corporate Development Director of the Group and an executive director of Imagi. Joining the Group in December 1999, Mr. Tse is in charge of the Group's strategic development, investor relations and the implementation of Boto.Net's business plan. Mr. Tse held senior positions in a number of renowned organisations, which include Chase Manhattan Asia Limited as a director, Inchcape Pacific Limited as Mergers and Acquisitions Director, Lerado Group Holdings Limited as Executive Director and Dresdner Kleinwort Benson China Limited as Managing Director. Mr. Tse holds a BBA degree and a MBA degree, both from the University of Texas, Arlington.

CHANGE OF NAME

Instead of changing the Company's name to Imagi International Holdings Limited after completion of the Disposal Agreement as announced in the Announcement, the Company has undertaken to GFEL and GGCL to change its name within one year after Completion.

FIRST SPECIAL GENERAL MEETING

Set out on pages 67 and 68 of this circular is a notice convening the First Special General Meeting which will be held at 10:30 a.m. on Monday, 19th August, 2002 at 16th Floor, Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong, at which an ordinary resolution will be proposed to consider, and if thought appropriate, to approve the Revised Transactions.

There is a pink form of proxy for use at the First Special General Meeting accompanying this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying pink form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the Company's Hong Kong branch share registrars, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, and in any event not later than 48 hours before the time appointed for the holding of the First Special General Meeting. Delivery of a form of proxy will not preclude you from attending and voting in person at the First Special General Meeting should you so desire.

Mr. Kao, Mr. Lam, Mr. Kui, Mr. Francis Kao and Mr. Tse, all being existing or proposed Directors, and Ms. Vivian Kao, who, together with their respective associates, were holding 2,085,127,810 Shares, representing approximately 60.6% of the Company's issued share capital as at the Latest Practicable Date, will abstain from voting on the resolution to be proposed at the First Special General Meeting to approve the Revised Transactions. Ms. Tsen Yun Lei, Liliana, an executive Director, and Ms. Ho Pui Fong, a non-executive director of two subsidiaries of the Company, are entitled to vote on the Revised Transactions in respect of the 190,435,300 Shares (approximately 5.5% of the Company's issued share capital) and 140,491,890 Shares (approximately 4.1% of the Company's issued share capital) respectively held as at the Latest Practicable Date by them, their associates and the trusts of which they are beneficiaries.

SECOND SPECIAL GENERAL MEETING

Set out on pages 69 and 70 of this circular is a notice convening the Second Special General Meeting which will be held at 10:30 a.m. on Friday, 30th August, 2002 at 16th Floor, Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong, at which a special resolution will be proposed to consider, and if thought appropriate, to approve the Share Premium Transfer and the Special Cash Dividend.

LETTER FROM THE BOARD

There is a blue form of proxy for use at the Second Special General Meeting accompanying this circular. Whether or not you intend to attend the meeting, you are requested to complete the accompanying blue form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the Company's Hong Kong branch share registrars, Secretaries Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, and in any event not later than 48 hours before the time appointed for the holding of the Second Special General Meeting. Delivery of a form of proxy will not preclude you from attending and voting in person at the Second Special General Meeting should you so desire.

All Shareholders (including Mr. Kao, Mr. Lam, Mr. Kui, Mr. Francis Kao, Mr. Tse, Ms. Vivian Kao and their respective associates) are entitled to vote on the resolution to be proposed at the Second Special General Meeting to approve the Share Premium Transfer and the Special Cash Dividend. Mr. Kao, Mr. Lam, Mr. Kui, Mr. Francis Kao, Mr. Tse, Ms. Vivian Kao have indicated that they and their respective associates will vote in favour of the resolution to approve the Share Premium Transfer and the Special Cash Dividend.

RECOMMENDATIONS

Revised Transactions:

Your attention is drawn to the letter from Anglo Chinese set out on pages 34 to 54 of this circular containing their opinion and the principal factors and reasons they have taken into account in arriving at their opinion as regards the terms of the Revised Transactions.

Anglo Chinese considers that the terms of the Revised Transactions are not fair and reasonable so far as the Shareholders are concerned and accordingly recommends the Non-abstaining Shareholders to vote against the ordinary resolution to be proposed at the First Special General Meeting to approve the Revised Transactions.

Shareholders are advised to read the whole circular carefully before making their decisions on the votes for the Revised Transactions. As Chairman and Managing Director of the Group, I have led the senior management team which has negotiated the terms of the agreements for two protracted durations since April 2001. We believe the agreements are vital to safeguard the interests of the Company and all the Shareholders. As the key co-founder of the Group and after 33 years' experience in the industry, I believe I am best placed to understand the future needs and prospects of the Businesses.

The original structure of the Disposal Agreement did, on the face of it, put me in a position of a perceived conflict of interest which may have misled other Shareholders. The Revised Transactions place my interest on the same footing as all Shareholders. I strongly believe that the proposed disposal of the Businesses by the Company while retaining a 25% interest in GIHL is the best investment mix for both the Company and the Shareholders. As set out on pages 13 and 14 above, the pro forma adjusted net asset value of the Company immediately following Completion and distribution of the Special Cash Dividend, and before deduction of the unrealised surplus arising on the New Disposal and the New Boto Property Disposal, is HK\$0.087 per Share. We believe our confidence in the future development and prospects of the Imagi Group described on pages 28 to 30 above is well-founded.

The global equity market is experiencing another period of turmoil, in particular the U.S. market, putting the world economy in acute risk of recession. This risk will create uncertainty that

LETTER FROM THE BOARD

will affect the prospect of investment in the stock market. The proposed purchase of the Businesses by GIHL provides a rare opportunity for Shareholders to realise a major portion of their investment return on the Shares at a cash valuation of HK\$1,170 million in such difficult economic and stock market conditions.

The Board is of the opinion that the proposed Revised Transactions are fair and reasonable and are in the best interest of the Company and the Shareholders. Therefore, I, for myself and on behalf of the management team, urge you to support the opinion of the Board and vote in favour of the ordinary resolution to be proposed at the First Special General Meeting to approve the Revised Transactions.

Share Premium Transfer and Special Cash Dividend:

The Board considers the Share Premium Transfer and Special Cash Dividend to be distributed subject to Completion are in the interests of the Shareholders and recommends Shareholders to vote in favour of the special resolution to be proposed at the Second Special General Meeting to approve the Share Premium Transfer and the Special Cash Dividend.

FURTHER INFORMATION

Your attention is drawn to the information contained in the Appendices to this circular.

Yours faithfully,
for and on behalf of the Board
Kao Cheung Chong, Michael
Chairman and Managing Director

LETTER OF ADVICE FROM ANGLO CHINESE

The following is the text of the letter from Anglo Chinese, prepared for the purpose of incorporation in this circular, in connection with its advice to the Shareholders in relation to the Major Transaction.

ANGLO CHINESE
CORPORATE FINANCE, LIMITED

財務顧問有限公司
英高

2nd August, 2002

The Shareholders
Boto International Holdings Limited
17th Floor, Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

Dear Sirs,

MAJOR TRANSACTION

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Shareholders in respect of the New Disposal Agreement and New Boto Property Disposal Agreement and the related agreements, namely the New Subscription Agreement and the New Shareholders' Agreement particulars of which are contained in this circular dated 2nd August, 2002, of which this letter forms part. The New Disposal Agreement, New Boto Property Disposal Agreement and the related agreements were entered into on 10th July, 2002 following a review of certain aspects of the transactions contemplated under the Disposal Agreement and Boto Property Disposal Agreement announced by the Company on 2nd April, 2002. Expressions used in this letter have the same meanings as defined in this circular, unless stated otherwise.

The Revised Transactions constitute a major transaction for the Company under the Listing Rules and are subject to approval of the Shareholders at the First Special General Meeting of the Company. The New Subscription Agreement is conditional on completion of the New Disposal Agreement and the New Shareholders' Agreement is conditional on the completion of the New Subscription Agreement. In view of the inter-relationship of the agreements, we have considered them as forming part of the same transaction.

In formulating our opinion and recommendations, we have reviewed, amongst other things, the published information on the Group, including its audited financial statements for the past five years, the last of which ended on 31st March, 2002. We have reviewed these financial statements together with the capital expenditures plan of the Group, the Group's profit projections for the period from 2003 to 2010, customers' orders projections up to 31st March, 2003 relating to the Businesses, and discussed with the management of the Company the performance and outlook of each of the Group's principal activities. We have reviewed the valuation methodology used for the purpose of the Revised Transactions. We have also reviewed the valuations of the Group's property interest that is the subject of the New Boto Property Disposal Agreement carried out by FPDSavills. The property valuations are set out in appendix I of this circular.

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In addition to the terms of the New Disposal Agreement and New Boto Property Disposal Agreement we have also reviewed the terms of the New Shareholders' Agreement, the New Subscription Agreement and the Credit Agreement, as well as the Consultancy Services Agreements which is to be entered into on completion of the New Disposal Agreement.

We have relied on the information, representations and valuations contained or referred to in this circular. We have also assumed that the information, representations and valuations contained or referred to in this circular were true and accurate at the time they were made and continue to be so at the date of the dispatch of this circular. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We have also been advised by the Directors and believe that no material facts have been omitted from this circular.

We have considered the market valuations of comparable publicly listed companies in Hong Kong and have reviewed the past performance of the Shares on the Hong Kong stock market and compared their performance in relation to the Hang Seng Index and the Hang Seng Consumer Goods Index. We have also considered some previous transactions which may be comparable.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in this circular and to provide a reasonable basis for our recommendation. We have not, however, conducted any form of in-depth investigation into the businesses and affairs or the prospects of the Group or any of their respective subsidiaries and associates.

Apart from normal professional fees for our services to the Company in respect of this engagement described above, no arrangement exists whereby Anglo Chinese will receive any fees or benefits from the Company and their respective associates.

PRINCIPAL FACTORS AND CONSIDERATION

We have set out below the principal factors and considerations that we have taken into account in arriving at our advice to the Shareholders.

Background to the proposals

On 29th March, 2002:

- (i) the Company entered into the Disposal Agreement with GGCL and GFEL, by which the Company conditionally agreed to sell to GGCL Boto Strategic Shares for a cash consideration of HK\$243.49 million, and to assign GCL Loan for a cash consideration of HK\$147.54 million;
- (ii) Boto Company entered into the same Disposal Agreement as (i) above with GGCL and GFEL, by which Boto Company conditionally agreed to sell to GGCL Bo Cheong Shares for a cash consideration of HK\$10,000, and to sell to GFEL Boto Business and Boto Business Assets for a cash consideration of HK\$602.96 million; and
- (iii) Boto Company entered into the Boto Property Disposal Agreement with GFEL, by which Boto Company conditionally agreed to sell the Boto Property to GFEL for a cash consideration of HK\$13.5 million.

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On 10th July, 2002 the transactions were modified, the principal effects of which were that under the New Disposal Agreement, the price would be increased from HK\$994 million to HK\$1,064 million, subject to adjustments set out in the New Disposal Agreement. Taking into account the pre-completion dividend of HK\$92.5 million to be paid to the Company and/or Topway and the consideration of HK\$13.5 million to be paid under the New Boto Property Disposal Agreement, the total effective consideration amounts to HK\$1,170 million.

As part of the Revised Transactions, the Company, through its wholly owned subsidiary, Topway will retain an interest in 25% of the Businesses by subscribing US\$11,303,789 (approximately HK\$88 million) for shares in GIHL under the New Subscription Agreement. On completion of the Revised Transactions, GIHL will be the holding company for the group operating the Businesses. Under the previous proposals, it was not proposed that the Company would retain an interest in the Businesses.

In addition, the Company will provide consultancy services to GIHL Group, further aspects of which are set out in page 25 of this circular.

The reasons for the revisions to certain aspects of the transactions are set out in the letter from the Board on page 27 of this circular.

On the basis of 3,439,925,000 Shares in issue on the date of the New Disposal Agreement, the effective consideration of HK\$1,170 million is equivalent to HK\$0.34 per Share. In the event that the Revised Transactions are approved by Shareholders at the First Special General Meeting of the Company to be convened on 19th August, 2002, and the Special Cash Dividend and the Share Premium Transfer are approved by the Shareholders at the Second Special General Meeting of the Company to be convened on 30th August, 2002, Shareholders will receive a Special Cash Dividend of HK\$0.26 per Share, representing approximately 83% of the total proceeds of the sale. In addition, following a distribution of the proceeds from the Revised Transactions, Shareholders will retain an interest in the Company whose principal business will be the development of computer graphics animation and a 25% interest in GIHL, the owner of the Businesses previously wholly-owned by the Company.

Rationale for the Revised Transactions

As stated in the letter from the Board in this circular, the Directors consider the Company's principal products namely Christmas festive trees and accessories, and its key market for them, in particular, the United States, are reaching a relatively mature stage with low growth prospects as compared to the computer graphics animation business with high growth potential. Notwithstanding the substantial increase in the sales volume of the Group's leisure furniture business, the Directors consider the market competition has been intensive. Therefore, the Directors consider that the Revised Transactions enable the Group to realise a significant portion of its investment in the Businesses while retaining a strategic interest in the Businesses.

The Boto Property has been used in connection with the Boto Business. In view of the larger disposal contemplated by the New Disposal Agreement, the Board considers that it will be beneficial to the Purchasers for the Boto Property to be sold to GFEL.

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Sale of the core business

The Revised Transactions relate to the sale of the two principal lines of business of the Group, namely the manufacture and distribution of artificial Christmas trees and other festive products, and the design and distribution of leisure furniture. These two lines of businesses contributed in aggregate to substantially all of the Group's turnover in the past five years up to 31st March, 2002. In October, 2000, the Group diversified into computer graphics animation business through its investment in Imagi Group. As informed by the Company, as at 31st March, 2002, the investment attributable to the animation business amounted to approximately HK\$62.0 million. For the year ended 31st March, 2002, the animation business contributed HK\$1.6 million in revenue and a net loss to the Group of HK\$8.0 million.

As a majority of the Group's products are related to Christmas, the sales derived from certain periods of the year are usually higher than that of the other periods. The Group's sales have a seasonal fluctuation, which generally peak from April to September each year in anticipation of Christmas. Sales during the peak period generally account for approximately 80% of the Group's total sales in a year.

The Company's continued interest in the assets forming the Revised Transactions

Following completion of the Revised Transactions, the Company will have interests in 25% of the issued share capital in GIHL, which through its subsidiaries will own the assets forming the Revised Transactions. The remaining 75% of GIHL will be owned by the limited partnerships affiliated with Carlyle, information of which is set out on page 16 of this circular.

Carlyle's private investment business includes the origination, structuring and acting as lead equity investor in leveraged buyouts of companies or businesses. A leveraged buyout structure involving the majority of the acquisition cost being financed by debt has been adopted in respect of the Revised Transactions. Carlyle has required the Company to retain a significant interest in the business forming the Revised Transactions. Carlyle has also required the Company to enter into the Consultancy Services Agreement with GIHL by which the Company will procure that four nominated persons, namely Mr. Kao, Mr. Lam, Ms. Vivian Kao and Mr. Kui will act as the Chairman and Managing Director, Deputy Managing Director, Marketing Director and Production Director of GIHL respectively.

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Past performance of the Company

The table below sets out the summary of the Group's audited consolidated profit and loss accounts and profit margins for the five years up to 31st March, 2002.

Table 1
(Expressed in HK\$'million)

	Audited				2002
	1998	Financial year ended 31st March,			
	1999	2000	2001		
Turnover					
Artificial Christmas trees and festive products	659.7	694.5	754.3	827.9	882.7
Leisure furniture	5.7	16.3	48.9	81.7	188.6
Computer graphics animation	0.0	0.0	0.0	0.0	1.6
	665.4	710.7	803.2	909.6	1,072.9
Costs of sales	(429.4)	(446.4)	(474.4)	(566.7)	709.4
Gross profits	236.0	264.3	328.8	342.9	363.5
Other revenue	0.6	1.8	8.3	5.7	6.0
Distribution costs	(55.4)	(59.9)	(92.1)	(97.9)	(130.6)
Administrative expenses	(70.6)	(70.7)	(77.3)	(83.2)	(87.0)
Operating profit	110.6	135.5	167.7	167.5	151.9
Finance costs	(12.8)	(16.2)	(13.5)	(12.7)	(6.5)
Bank interests income	2.8	4.2	6.5	8.6	2.7
Share of profits/(losses) of associated companies	0	0	(2.4)	(1.5)	0
Profit before taxation	100.6	123.5	158.3	161.9	148.1
Taxation	(3.9)	(3.2)	(5.8)	(5.8)	(6.8)
Profit after taxation	96.7	120.3	152.5	156.1	141.3
Minority interests	0	0	0	0.3	0.1
Net profit attributable to shareholders	96.7	120.3	152.5	156.4	141.4
Gross profit margin	35.5%	37.2%	40.9%	37.7%	33.9%
Net profit margin	14.5%	16.9%	19.0%	17.2%	13.2%

Source: Annual reports of the Company

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As can be seen in Table 1 above, the Group's artificial Christmas trees and festive products operations and the leisure furniture operations have shown a growing trend and have consistently generated increased turnover for the Group for the past five completed financial years ended 31st March, 2002. During this period, the Group recorded an increase of some 61.2% in its turnover from HK\$665.4 million to HK\$1,072.9 million. The Group's net profit increased some 61.7% from HK\$96.7 million in 1998, to HK\$156.4 million in 2001, and subsequently declined 9.5% to HK\$141.4 million in 2002. Gross profit margins increased from some 35.5% in 1998, peaked at 40.9% in 2000 and subsequently declined to 33.9% in 2002. Net profit margins increased from some 14.5% in 1998, peaked at 19.0% in 2000 and subsequently declined to 13.2% in 2002.

For the year ended 31st March, 2002, the Group's sales of artificial Christmas trees and festive products, and leisure furniture continued to see significant growth which saw some 6.6% increase in its sales of artificial Christmas trees and festive products and some 130% increase in its sales of leisure furniture businesses over the previous year. However, gross profit margins saw a decrease from 37.7% in 2001 to 33.9% in 2002, and net profit margins decreased from 17.2% in 2001 to 13.2% in 2002. The Directors consider that the decline in the Group's profit margin was due to the continued increases in the price for petroleum-based raw materials such as polyvinyl chloride powder and the continued increases in labour costs to comply with the new labour laws in the PRC. The reduction in the profit margin relating to artificial Christmas trees and festive products was also as a result of a continuing shift of the product mix from high profit margin items to lower profit margin but complementary products to cater for changing consumer preferences.

The results in respect of the year ended 31 March, 2002 include certain stock adjustments in relation to slow-moving stocks amounting to HK\$19.4 million and transaction costs adjustments of HK\$1.6 million relating to the costs associated with the current proposals. Of the adjustments in respect of slow-moving stocks, HK\$12.4 million was required by the Purchasers in respect of the closing stock position of the Group as at 31st March, 2001 as part of the initial negotiations in respect of the acquisition of the Businesses. Had the Purchasers' adjustments of HK\$12.4 million been made in respect of the year ended 31st March, 2001, the gross profits of the Group would have been approximately HK\$375.9 million in the year ended 31st March, 2002, compared with HK\$330.5 million in the previous financial year and gross profit margins would have been 35.0% and 36.3% respectively. In addition, the Company has estimated, as set out in appendix II of the circular, subject to the qualification set out therein that the net loss attributable to the computer graphics animation business was HK\$8.0 million in the year ended 31st March, 2002. The segmental results of the computer graphics animation business are not available for the previous year. Eliminating the adjustment of HK\$12.4 million for slow-moving stock, the non-recurrent cost adjustment of HK\$1.6 million and the HK\$8.0 million loss attributable to the computer graphics animation business and taking into account taxation at the average rate incurred for 2002, the net profit attributable to the Shareholders would have been HK\$162.4 million in the year ended 31st March, 2002, and the net profit margins would have been 15.1%.

The Group is reported to be the world's largest maker of artificial Christmas trees and has a production capacity of more than 30,000 TEU (Twenty-foot Equivalent Unit) per annum. The Directors estimate that the Group's market share in the United States in respect of sale of artificial Christmas trees and festive products grew from some 30% in 1997 to the current market share of over 40% in the United States. The Group currently achieves a market share of about 60% in the United Kingdom and some 25% in continental Europe.

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The Directors anticipate a relatively slowing growth in the artificial Christmas trees business in future as compared to that expected of the Group's animation business due to the already significant market share that the Group has achieved. It was stated in the Announcement dated 2nd April, 2002 that "*the Directors consider the Company's markets, in particular for Christmas festive products in the United States and the Company's principal products are reaching a relatively mature stage with low growth prospects as compared to the high growth potential of the computer graphics animation business.*" Further, the Directors expect limited growth in the profits from its artificial Christmas trees and festive products operations when its single largest customer, K-mart, a retailing chain in the United States filed for creditor protection in January, 2002. For the year ended 31st March, 2002, sales to K-mart accounted for around 37.5% of the Group's turnover (2001: 25.9%). The Directors expect that increased orders from the Group's other existing and new customers may partly, but not entirely, compensate for the reduction in orders from K-Mart. The Directors also expect increases in the prices of polyvinyl chloride powder used in artificial Christmas trees and festive products to be another factor that is likely to affect the future profitability of the Businesses.

Based on the Company's artificial Christmas trees sales projections, a 4.1% decline in artificial Christmas trees sales (in monetary terms) is projected for the year ending 31st March, 2003 and some 5.6% increase in growth in sales (in monetary terms) for the following year. Total sales of artificial Christmas trees and festive products to K-Mart, Walmart and Target accounted for on average 45% of the Group's sales of these products in the past three years.

We have also reviewed the Group's projection of customers' orders for leisure furniture, and it is noted that a significant increase in the customers' orders for 2003 is anticipated. Based on the Group's sales projections prepared by the Company, it is estimated that there will be some 23% increase in growth in the sales (in monetary terms) from the leisure furniture business for the year ended 31st March, 2003 and some 21% increase in growth in sales (in monetary terms) for the following year.

The Directors consider that the Group faces keen competition in respect of the leisure furniture business given the large numbers of participants in the market and the small market share attained by the Group. The Group's competitors include manufacturers in the United States and Taiwan which produce high quality leisure furniture products that are often sold at competitive prices. The Directors therefore consider that the growth potential in the leisure furniture business is facing keen competition and it will be difficult to retain attractive return from this line of business in future.

Share prices

The aggregate consideration under the New Disposal Agreement and the New Boto Property Disposal Agreement of HK\$1,077.5 million represents effectively HK\$0.31 per Share, based on a total of 3,439,925,000 Shares in issue as at the date of the New Disposal Agreement. If the pre-completion dividend of HK\$92.5 million is taken into account, the effective consideration is equivalent to HK\$0.34 per Share.

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We have compared the effective consideration per Share with the performance of the Shares as measured against the Hang Seng Index and the Hang Seng Consumer Goods Index, and the performance of shares in other Hong Kong publicly listed companies carrying on similar business as the Company. We consider the market price of the Shares reflects principally the valuation of a minority interest in the Group's artificial Christmas trees and festive products and leisure furniture businesses given these form the two principal lines of business. However, the price may also include value attained to the Group's animation business, although we have not been able to quantify the amount since the Group's animation operation only started to generate revenue in March 2002.

The tabulation below shows the lowest and highest Share price, the weighed average Share price and the premium of the effective consideration of HK\$0.34 per Share to the weighted average Share price over several periods immediately preceding 2nd April, 2002, being the announcement of the previous Disposal Agreement and Boto Property Disposal Agreement, and 10th July, 2002, being the announcement date of the New Disposal Agreement and the New Boto Property Disposal Agreement.

	Lowest Share price (HK\$)	Highest Share price (HK\$)	Weighted average Share price (HK\$)	Premium of effective consideration per Share to weighted average Share price (%)
Price during the six months prior to suspension on 2nd April, 2002	0.260	0.355	0.320	6.25
Price during the three months prior to suspension on 2nd April, 2002	0.285	0.355	0.320	6.25
Price during the ten trading days prior to suspension on 2nd April, 2002	0.325	0.350	0.340	0
Price during the six months prior to suspension on 10th July, 2002	0.285	0.355	0.320	6.25
Price during the three months prior to suspension on 10th July, 2002	0.305	0.325	0.320	6.25
Price during the ten trading days prior to suspension on 10th July, 2002	0.320	0.325	0.320	6.25

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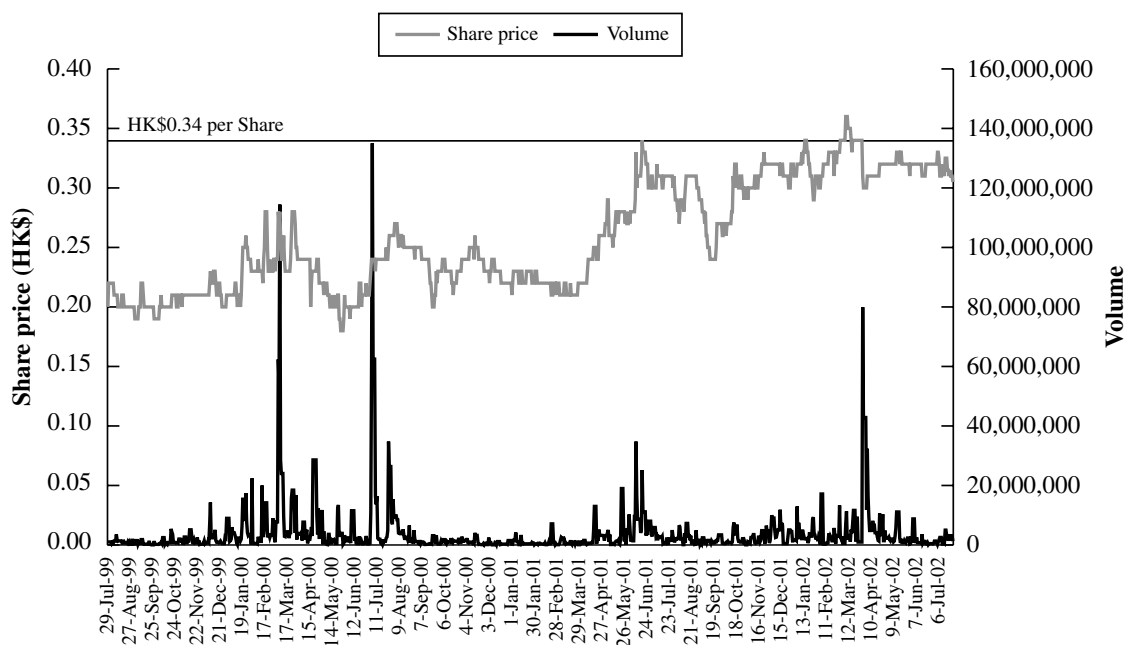
The tabulation below shows the closing Share price on the day immediately prior to suspension on 2nd April, 2002 and 10th July, 2002, and on 29th July, 2002.

	Closing Share price (HK\$)	Premium of effective consideration per Share to Closing Share price (%)
Closing price on the day immediately prior to suspension 2nd April, 2002	0.340	0
Closing price on the day immediately prior to suspension on 10th July, 2002	0.325	4.61
Closing price on 29th July, 2002	0.315	7.93

Set out below are the three charts which show the comparison of the effective consideration of HK\$0.34 per Share with closing price of the Shares for the past three years, relative performance of the Shares measured against the Hang Seng Index and the Hang Seng Consumer Goods Index, for the past three years and up to time of suspension of trading in the Shares on 10th July, 2002 pending announcement of the New Disposal Agreement.

Table 2

The performance of the Shares over the three years to 29th July, 2002 and comparison with HK\$0.34 per Share



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Table 3

Performance of the Shares measured against the Hang Seng Index over the three years to 29th July, 2002

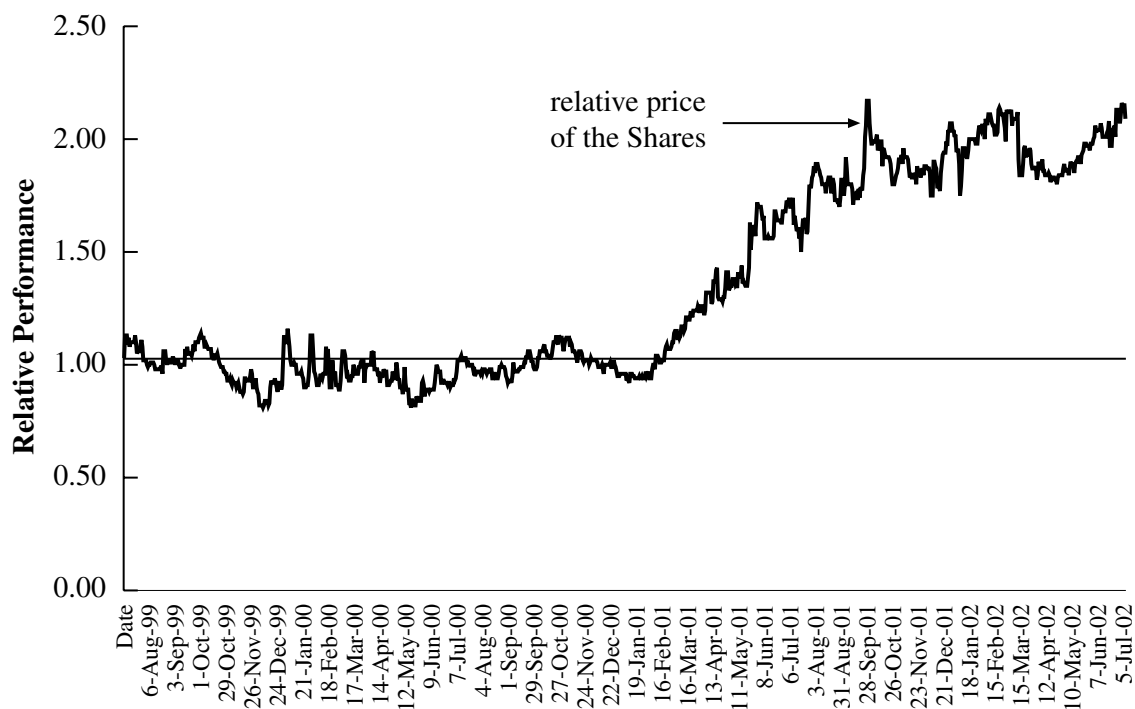
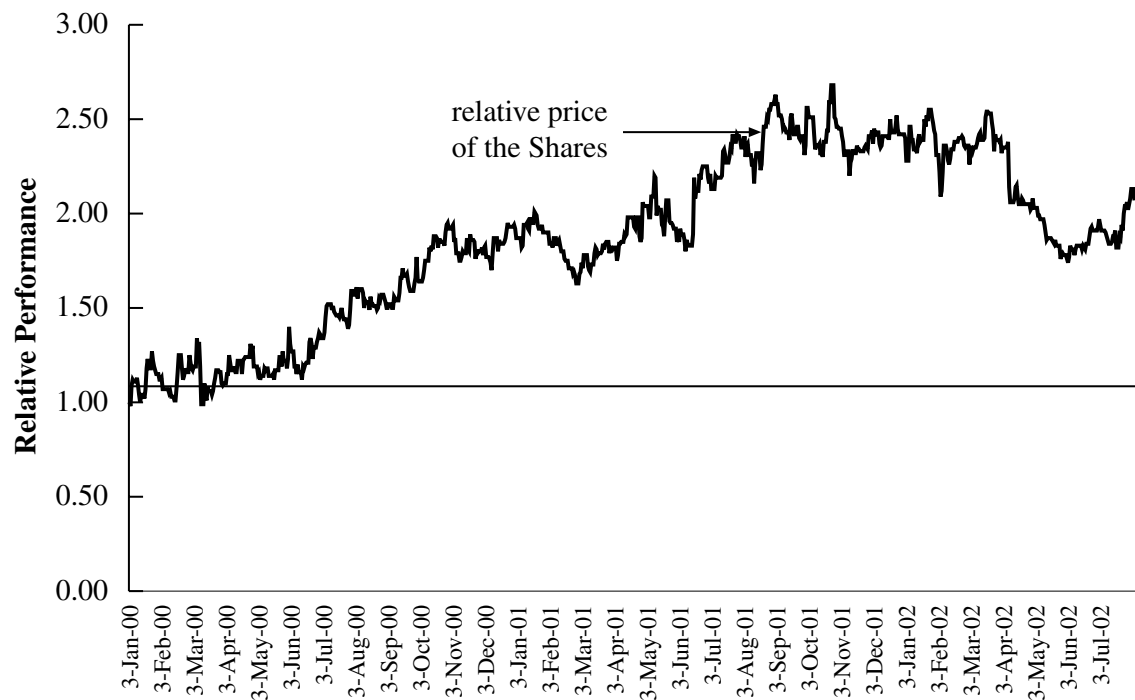


Table 4

Performance of the Shares measured against the Hang Seng Consumer Goods Index from 1st January, 2000 to 29th July, 2002



Note: The Hang Seng Consumer Goods Index was launched on 1st January, 2000

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Over the past three year period, unlike most small to medium-sized manufacturing companies listed on the Stock Exchange, the Shares have generally outperformed the Hang Seng Index and the Hang Seng Consumer Goods Index by a substantial margin. The outperformance was most apparent during the period from about June 2000 onwards. The above charts imply that an investment in the Shares would have yielded better returns than investments in constituent companies of the Hang Seng Index and Hang Seng Consumer Goods Index.

Since the date of the original announcement on 2nd April, 2002, the Hang Seng Index had declined on 10th July, 2002 by 0.8% and the Hang Seng Consumer Goods Index of which the Company is a component had appreciated by 21.2% while the Share price declined by 4.4%. However, from 10th July, 2002 to 29th July, 2002, the Hang Seng Index and the Hang Seng Consumer Index have declined by 8.46% and 14.94% respectively, and the Share price declined by 6.15%.

The Share prices referred to above reflect the investment value of a minority interest in the Company and do not include any premium for control. It is generally expected that a purchaser will pay a premium to the market price to acquire control of a profitable business of a publicly listed company. The extent of the premium will normally depend on the nature, past performance in terms of profitability and cashflow, as well as prospects of the business. In the case of the Revised Transactions, it is noted that the consideration after adjusting for the pre-completion dividend of HK\$92.5 million, represents merely a modest premium to the market value of the Shares immediately prior to the Announcement and is equal to the Share price immediately prior to the announcement on 2nd April, 2002. We believe that such premium for acquiring control of a profitable core business forming the Revised Transactions is inadequate in the circumstances. Furthermore, we also consider that the performance of the Shares has been affected by the current proposals, with the result that the current Share price may have been different in the absence of the proposals.

Liquidity

The average daily volume of trading in the Shares over various periods prior to (and including) 10th July, 2002 is set out below:

Over twelve months:	3,467,040 Shares or 0.10% of the issued share capital of the Company
Over six months:	4,566,435 Shares or 0.13% of the issued share capital of the Company
Over three months:	2,865,439 Shares or 0.08% of the issued share capital of the Company
Over last ten trading days:	527,143 Shares or 0.01% of the issued share capital of the Company

It is noted that the Shares had a low trading liquidity during the one year period before the announcement dated 10th July, 2002, with a daily average trading percentage of the issued share capital of the Company of around 0.10%. However, the two days period following the publication of the Announcement saw significant trading in the Shares. On 3rd April, 2002 and 4th April, 2002, 79,940,000 Shares and 42,842,000 Shares were traded

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respectively. Between 10th July, 2002 and 29th July, 2002, there was also significant trading in the Shares, which saw an average volume of 1,742,692 Shares or 0.05% of the issued share capital of the Company traded over this period. Given, however, the generally low liquidity in the Shares, it may be difficult for the Shareholders to dispose of any significant shareholding without depressing the Share price except through an offer or a proposal as is suggested. In the event that the Revised Transactions do not become effective, it is not expected that the liquidity of the Shares held by minority shareholders would improve materially. In assessing the Revised Transactions, regard should be taken of the fact that the Company is a controlled company in which Mr. Kao and his family have an effective control of over 50%, and Shareholders who are not members of the Kao family cannot control the disposition of the assets of the Group or implement proposals which would result in the underlying asset value of the Group being realised and the proceeds returned to Shareholders without the support of the Kao family. In these circumstances and given the poor liquidity of the Shares in the past, the opportunity for the Shareholders to sell their Shares in the market without adversely affecting the Share price may be limited.

Net Asset Value of the Businesses

The computation of the net asset value of the Company is set out in the letter from the Board in this circular. The book value of the assets to be disposed of, which include the Businesses and the Boto Property amount to some HK\$749.5 million, after adjusting for the pre-completion dividend of HK\$92.5 million as at 31st March, 2002, and the aggregate consideration of the Revised Transactions of the Businesses and the Boto Property amount to HK\$1,077.5 million representing a premium of 44% or 1.4 times the net asset value of the assets to be disposed of under the Revised Transactions. However, the net asset value figure does not include any retained profits earned by the Company since 31st March, 2002, which would be expected to enhance the net asset value figure. The increase of HK\$70 million in consideration under the New Disposal Agreement may reflect in whole or in part these earnings since the financial year end of the Company.

The Shares were trading at a price to book ratio of 1.3 times prior to the suspension of trading pending the announcement on 10th July, 2002, and at 1.2 times and 1.0 times and 1.5 times for each of the three years ended 31st March, 2000, 2001 and 2002 respectively. Given the performance of the Company, its reputation and position in the market and prospects, we consider that the premium to the net asset value as represented by the consideration of the disposal to be inadequate.

Comparison with prevailing valuation of similar publicly listed companies in Hong Kong

The consideration being paid for the Businesses, excluding the property of HK\$1,064.0 million represents a price earnings multiple of approximately 7.5 times based on the audited consolidated profit attributable to shareholders of approximately HK\$141.4 million for the year ended 31st March, 2002. Based on the total effective consideration taking into account the pre-completion dividend, the price represents a multiple of 8.3 times.

If the adjustments to the results for the year ended 31st March, 2002 referred to on page 39 of our letter relating of stock and transaction costs and the loss attributable to the computer graphics animation business are eliminated, the price earning multiple based on a consideration of HK\$1,064 million would be 6.55 times and based on the total effective consideration 7.2 times.

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We have identified 20 other locally-listed industrial and consumer goods manufacturing or trading companies having market capitalisations between HK\$1,000 million to HK\$2,000 million and with minimum net profit of HK\$100 million. We have compared the price earnings multiple of these companies with the Company, the Hang Seng Index and the Hang Seng Consumer Goods Index as set out below:

TABLE 5 – VALUATION OF INDUSTRIAL AND CONSUMER GOODS MANUFACTURING AND TRADING COMPANIES ON THE HONG KONG STOCK EXCHANGE MARKET HAVING MARKET CAPITALISATIONS BETWEEN HK\$1,000 MILLION AND HK\$2,000 MILLION AND WITH A MINIMUM NET PROFIT OF HK\$100 MILLION

Companies	Price earnings multiple (as of 10th July, 2002)	Price to book ratio
The Company	7.06	1.47
Artel Solutions Group Holdings Limited	7.59	2.91
Asia Aluminium Holdings Limited	8.56	0.82
Associated International Hotels Limited	13.92	1.23
China Pharmaceutical Enterprise and Investment Corporation Limited	12.05	1.88
Elec & Eltek International Holdings Limited	11.11	1.65
Far Eastern Polychem Industries Limited	5.35	2.33
First Mobile Group Holdings Limited	7.20	1.15
Global Tech Holdings Limited	3.79	0.61
Glorious Sun Enterprises Limited	9.40	0.48
Greencool Technology Holdings Limited	4.79	1.15
GZI Transport Limited	6.59	0.39
IDT International Limited	11.94	1.13
Kingmaker Footwear Holdings Limited	14.92	3.38
K-Wah International Holdings Limited	13.93	1.65
Moulin International Holdings Limited	7.40	1.48
QPL International Holdings Limited	1.98	1.27
Road King Infrastructure Limited	8.50	0.40
Shui On Construction & Materials Limited	3.47	1.39
SIIC Medical Science & Technology (Group) Limited	5.23	1.55
Zhejiang Glass Company Limited “H” Share	4.23	1.75
Average Price Earnings Multiple/ Price to Book Ratio	8.10	1.43
Median Price Earnings Multiple/ Price to Book Ratio	7.40	1.33
Hang Seng Index	17.03	
Hang Seng Consumer Goods Index	24.40	

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As shown in Table 5, the median price earnings multiple and price to book ratio of the 20 industrial stocks listed above excluding the Company are around 7.40 times and 1.33 respectively and the average price earnings multiple and price to book ratio of these stocks are around 8.10 times and 1.43 times respectively. However, the median and average price earnings multiples shown above represent merely the market valuation of these stocks on the basis of a passive minority investment and do not carry a premium that is expected to be paid by a purchaser of a controlling interest in a publicly listed company. Further, the price earnings multiple of the Hang Seng Index and the Hang Seng Consumer Goods Index of 17.03 times and 24.40 times respectively, are substantially above that of the Company. We therefore do not consider that the price earnings multiple of 7.5 times implied by the consideration of the Businesses excluding the property of HK\$1,064.0 million and of 8.3 times implied by the effective consideration of the Revised Transactions of HK\$1,170.0 million adequately reflects the value that should be ascribed to the acquisition of control of the businesses forming the Revised Transactions.

Comparable transactions

We are not aware that there were any previous transactions where artificial Christmas trees and festive products and leisure furniture business of publicly listed companies in Hong Kong were sold. We note that in the past twelve months, there were two recent disposals of interests in banking operations of publicly listed companies in Hong Kong. These transactions may not, however, be comparable to the disposal due to the different nature of the business being disposed of. In assessing the consideration receivable under the Revised Transactions, we have also reviewed a past transaction, as described below in Table 7 below, that involved the sale of the core business of a local publicly listed company.

Table 7 – TERMBRAY INDUSTRIES INTERNATIONAL (HOLDINGS) LIMITED

Date	Size of transaction	Nature of business disposed of	Percentage paid in cash	Price/book ratio	Price/earnings multiple	Nature of business that remains after the sale of core business
August 1999	HK\$2,516.21 million	Manufacturing and sale of printed circuit board that was profit-making at the time and had achieved considerable growth in the few years prior to the sale	100%	2.8 times	15.4 times the audited combined profit of Termbray for the year ended 31st March, 1998; or 12.4 times of the unaudited combined profit of the business to be disposed of for the year ended 31st March 1998	Property development in the PRC that was loss making at the time.

It is noted that, in the above case, the consideration in respect of the sale of the core business of Termbray represents a significant premium to the net asset value of Termbray at the time and a significantly higher exit earnings multiple. We consider that this transaction provides further evidence that the consideration to be paid under the Revised Transactions is inadequate.

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Dividends

The Company has maintained a high dividend distribution in respect of the five years ended 31st March, 2002 representing on average approximately 42.8% of distributable profits over the period. Based on the aggregate dividends paid in respect of the year ended 31st March, 2002 and the average closing price of the Shares during the ten trading days prior to suspension of trading of the Shares on 10th July, 2002, the dividend yield was approximately 2.18%.

We consider the historic dividend yield and high dividend pay out ratio to be a continuing attractive feature of an investment in the Company. Shareholders should note that following Completion, the Group will maintain a minority interest in the Businesses previously wholly owned by the Group and will be principally engaged in computer graphics animation business that had only started to generate revenue of some HK\$1.6 million for the year ended 31st March, 2002. The Group's ability to maintain the same level of dividend distribution as in the past will depend on the future profitability of the Group's computer graphics animation business, which given the lack of a profit track record is uncertain.

Effects on the Group if the Revised Transactions is approved

Subject to Completion and approval by the Shareholders of the Share Premium Transfer and the Special Cash Dividend, the Board proposes to declare a special cash dividend of HK\$0.26 per Share, which is equivalent to approximately HK\$894.4 million in total to Shareholders as a special cash dividend and is expected to distribute the Special Cash Dividend on or before 4th September, 2002. The balance of HK\$275.6 million will be retained by the Company as working capital, investments and, in respect of an amount of HK\$170 million, security purposes as required by the terms of the New Disposal Agreement to ensure that the Company can meet any valid warranty claims under the New Disposal Agreement. Accordingly Shareholders will, based on the unaudited proforma adjusted consolidated net asset value immediately before Completion and taking into account the proposed cash distribution, have interests in the Group with consolidated net assets as set out below:

	Before Completion <i>HK\$'million</i>	After Completion <i>HK\$'million</i>	After cash distribution @HK\$0.26 per Share <i>HK\$'million</i>
Audited consolidated net asset value immediately before Completion	875.1	875.1	875.1
<i>Less:</i> Book value of assets disposed of		841.9	841.9
		33.2	33.2
<i>Add:</i> Proceeds of the Revised Transactions		1,170.0	1,170.0
<i>Less:</i> estimated expenses in connection with the Revised Transactions		(8.5)	(8.5)
<i>Less:</i> Unrealised surplus arising on the Revised Transactions		(82.0)	(82.0)
<i>Less:</i> Cash distribution		(894.4)	(894.4)
Pro forma unaudited adjusted net assets value of the Group		1,112.7	218.3
Net asset value per Share	HK\$0.25	HK\$0.32	HK\$0.06

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In the event the Revised Transactions are approved by Shareholders at the First Special General Meeting, Shareholders will retain an interest in a listed company principally engaged in computer graphics animation business in which the Group invested in October, 2000 and an 25% interest in the Businesses previously wholly owned by the Group. The Stock Exchange has confirmed that the Company may proceed with the Revised Transactions on the basis that it will fully comply with the relevant disclosure and shareholders' approval requirements under Chapter 14 of the Listing Rules. Accordingly, Shareholders should note that the listing status of the Company will continue. The Company's source of earnings will come from its interest in GIHL as an associated company and the revenue generated by the Group's computer graphics animation business. In addition, it will receive consultancy fees of not less than HK\$11,236,200 in the first year after Completion. Shareholders should however note that given the unproven track record of the Group's computer graphics animation business, the prospects of the business to be retained by the Group following Completion are uncertain.

The current proposals, including the proposed cash distribution, if the Revised Transactions are completed, provides Shareholders with the opportunity of receiving a significant portion of their investment in cash, while retaining an interest in a listed company with an indirect interest in the Businesses previously wholly owned by the Group and with a business, which although unproven, may have good prospects.

Further, it is expected that upon Completion, Mr. Kao and Mr. Lam will remain as executive directors of the Company. Mr. Francis Kao, the son of Mr. Kao will continue as an executive Director and it is intended that Mr. Tse will join the Board. The two current independent non-executive Directors, namely, Mr. Alexander Reid Hamilton and Mr. Oh Kok Chi, together with the other non-executive Director, Mr. Zhuo Fu Min, will remain in office. The Company has informed us that about 120 employees will be transferred to GFEL on terms that are no less favourable than their existing terms of employment with the Group.

Financial condition and prospects of the Company after the Revised Transactions

The Company will receive a total consideration of HK\$1,077.5 million in cash under the Revised Transactions. In addition, the Company and/or its wholly-owned subsidiary, Topway, will receive a dividend of HK\$92.5 million in cash from Boto Strategic and its subsidiaries and/or Boto Company on the business day immediately prior to the date of the Completion. The Company intends to distribute a substantial part of the proceeds of the Revised Transactions amounting to HK\$894.4 million to Shareholders as a special cash dividend after Completion, if so approved by the Shareholders at the Second Special General Meeting. As stated in the letter from the Board, the Directors will, after taking into consideration the working capital requirements and the possible future investment purposes of the Group, ensure that sufficient amount of funds will be retained for the furtherance and development of the computer graphics animation business and for further investment purposes, after the distribution of the pre-completion dividend.

Following the Revised Transactions, the Group will cease to engage in the artificial Christmas trees and festive products and leisure furniture businesses. It will continue developing its computer graphics animation business. The Directors expect the Group's computer graphics animation business to generate more revenue in the near future by entering into distribution agreements with various distributors around the world and identifying licensing opportunities in relation to "Zentrix". In the longer term, the Group is committed

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to becoming a leading computer graphics animated cartoon studios in Asia and a full service project management house in the field of 2D and 3D animation in Japan. It also intends to seek actively for computer graphics animation or other entertainment related projects in Asia. Given the short history and the lack of a profitable track record of the Group's animation business, it is uncertain as to whether these future intentions of the Group may materialise and that the computer graphics animation business will achieve the same or higher returns to Shareholders in future. Shareholders should note that the computer graphics animation business is generally regarded as relatively more risky than the artificial Christmas trees and festive products and leisure furniture business that is the subject of the Revised Transactions.

Net asset value undertaking

We have considered the terms of the net asset value undertaking under the New Disposal Agreement, which requires the Company to maintain a minimum level of net assets of not less than HK\$170 million for a period of 15 months after Completion for the purpose of, amongst other things, meeting any valid warranty claims by the Purchaser. The undertaking covers, amongst other things, any warranty proceedings instituted against Boto Company or GFEL in respect of liabilities of Boto Company and or of GFEL pursuant to Section 3 of the Transfer of Businesses (Protection of Creditors) Ordinance (Chapter 49 of the Laws of Hong Kong) and will apply for a period of 15 months after Completion. As a result of the method used for structuring the proposed disposal of the Businesses under the New Disposal Agreement, the full proceeds of the Revised Transactions cannot be made available for distribution to shareholders of the Company until after the expiry of the warranty period. However, we understand from the Company that it will require working capital similar to the minimum level of net assets undertaking described above for developing the computer graphics animation business. Nevertheless, these warranties will restrict the ability of the Company to make distributions during the warranty period.

Investment in GIHL and the New Shareholders' Agreement, New Subscription Agreement and the Credit Agreement.

As part of the revised proposals the Company, through its wholly owned subsidiary Topway, will under the New Subscription Agreement subscribe US\$11,303,789 (approximately HK\$88 million) for shares in GIHL representing 25% of the issued share capital of GIHL on completion of the New Subscription Agreement. Further details of the New Subscription Agreement are set out in the letter from the Board in this circular. Immediately following completion of the New Subscription Agreement the Company will have an interest in 25% of the Businesses which will be capitalised as follows:

	US\$	HK\$million equivalent
Subscription of shares in GIHL	45,215,155	352
Acquisition facility under the Credit Agreement	104,000,000	811
Working capital facility drawn under the Credit Agreement	25,640,000	200
Total	174,855,155	1,363

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The resulting financing structure, which is typical for a leveraged buy out of a business, gives rise to high levels of gearing. Based on the net tangible asset value of the Businesses as at 31st March, 2002 and the property to be acquired under the New Boto Property Disposal Agreement, the consideration paid will give rise to goodwill arising of HK\$354 million before taking into account any retained earnings of the Businesses since 31 March, 2002. Based on the capitalisation of GIHL shown in the table above, we estimate that the consolidated balance sheet of GIHL immediately following completion of the Revised Transactions will show a deficit in shareholders' funds after eliminating the goodwill arising on acquisition.

Based on the audited consolidated accounts of the Group for the year ended 31st March, 2002 the earnings before interest, tax, depreciation and amortisation of the Businesses was estimated to be approximately HK\$214 million after eliminating inventory adjustments and transaction cost adjustments amounting in total to approximately HK\$21.0 million. The Directors do not expect these adjustments are not expected to be recurrent. The transaction costs arise from the costs to be borne by the Company in respect of the Revised Transactions. Based on these figures and on the basis that interest rates remain at current levels, GIHL should be well able to service the interest costs and capital repayments required under the Credit Agreement.

Under the terms of the Shareholders' Agreement it is proposed that for each financial year after the financial year ending 31st March, 2006, 33% of the profits of GIHL available for distribution after appropriation of prudent and proper reserves, including allowances for future working capital and provision of tax will be available for the payment of dividends to GIHL Shareholders. Such distribution will be subject to the approval of GIHL's lending bank in accordance with the terms of the Credit Agreement.

Whilst, the investment in GIHL enables the Company to retain a 25% interest in the Businesses, the capital structure of GIHL is highly geared which adds risk to the investment. Furthermore the Company's interest does not give it control over the directions of GIHL, although the representation on the board of GIHL does give it power to influence board decisions. In addition the Company will cease to have unrestricted access to the cash flows of the Businesses, but in respect of the investment will rely on the dividend payments made from time to time, which under the New Shareholders' Agreement, will not be before 2006 and is subject to the approval of GIHL'S lending bank. Accordingly, although the Company will be able to account for its Share of the profits of GIHL, it is unlikely to receive dividends from this investment before 31st March, 2006.

Pursuant to the New Shareholders' Agreement, there will be two employee share option schemes, namely "Scheme A" and "Scheme B", in respect of which options not exceeding 10% and 5% of the GIHL shares then in issue (on a fully diluted basis) may be granted to the directors and employees of GIHL and its subsidiaries, including Mr. Kao, Mr. Lam and Ms. Vivian Kao who will be the nominated persons procured by the Company pursuant to the Consultancy Services Agreement. Assuming that the options under both schemes are exercised in full, Topway's shareholding in GIHL may be diluted to 21.7%.

The events of default set out in the New Shareholders' Agreement have been highlighted in the letter from the Board. Such events of default including, amongst other things, Mr. Kao's ceasing to be a director of Topway or the Company (otherwise than by reason of his death or mental incapability. If such events of default occur during the life of

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the New Shareholders' Agreement, they would entitle the non-defaulting shareholders of GIHL to require the defaulting shareholders to sell their shares in GIHL at a price per GIHL equal to the price paid per GIHL by the defaulting shareholder.

Accordingly if an event of default by Topway occurs, Topway could be required to sell its entire shareholding in GIHL at its cost prices of US\$11,303,789 (approximately HK\$88 million) regardless of the performance and financial condition of GIHL at the time. We consider that this requirement should reflect the value of GIHL at the time.

Alternative proposals

We noted that prior to entering into the Disposal Agreement and the Boto Property Disposal Agreement, the Group received a bid from a party other than the Purchasers in relation to the proposed Revised Transactions of the Group's artificial Christmas trees and festive products and leisure furniture operations. The terms of the Revised Transactions secured by the Group were therefore achieved after a competitive selection process and the offer received from the other unsuccessful bidder was comparable to the terms of the Revised Transactions. The Company have informed us that the two proposals relating to the sale of the Group's artificial Christmas trees and festive products and leisure furniture operations were initiated by the bidders, and not solicited by the Company itself, and that the Carlyle's proposal was selected after comparing the consideration under the two bids, the future assistance available and the revenue requirement of the businesses being disposed of, and the background of the two bidders.

The Consultancy Services Agreement

As part of the arrangements under the Revised Transactions, the Company will, upon Completion, enter into a Consultancy Services Agreement with GFEL under which the Company will procure four nominated persons, namely Mr. Kao, Mr. Lam, Ms. Vivian Kao and Mr. Kui to act as the Chairman and Managing Director, Deputy Managing Director, Marketing Director and Production Director of GIHL respectively. The term of the agreement is for a three year period commencing from the date of Completion, and in return, the Company will receive consultancy fees of not less than HK\$11,236,200 in the first year after the date of Completion, which are fees in line with the total emoluments paid by the Company to all the Executive Directors in the year ended 31st March, 2002. In addition, the Company is entitled to a discretionary fee which shall be determined by GIHL having regard to the financial performance of the GIHL Group. Accordingly, we consider the terms of the Consultancy Services Agreement to be favourable to the Company.

The support and promotion of the Revised Transactions by Mr. Kao

Mr. Kao, the Chairman of the Company, is interested directly or indirectly in 1,957,773,400 Shares representing in total 56.9% of the issued share capital of the Company. Mr. Kao is the founder of the Company and has been intimately involved in the Businesses. Through the above shareholding he has the largest economic interest in the Company and in the effects on the Company of the Revised Transactions. While under the previous proposal Mr. Kao's indirect interest in Businesses remained similar after the disposal of Businesses as a result of a 30% shareholding in GIHL, under the New Disposal Agreement he is, effected as a shareholder in the Company on a pro-rata basis in the same way as other Shareholders. Mr. Kao, has been actively involved in the negotiation of the New Disposal Agreement and related agreements and supports the Revised Transactions.

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Although Mr. Kao will continue to work in the Businesses as a person nominated under the Consultancy Services Agreement, we do not consider that his economic interest is materially different from that of other Shareholders except that he will potentially be a grantee under the employee share options pursuant to the New Shareholders' Agreement which would result in his interest being different from other Shareholders. Accordingly, we consider that his support and promotion in the sale of the Businesses on the proposed terms, given his experience and knowledge particularly in fields of artificial Christmas trees and festive products, is a positive factor favouring the terms of the Revised Transactions.

Opinion and recommendation

In forming our advice to the Shareholders in respect of the New Disposal Agreement, the New Boto Property Disposal Agreement, the New Subscription Agreement, the New Shareholders' Agreement and the Consultancy Services Agreement, we have taken into account all the factors and reasons set out above. We have not sought to advise separately on the New Boto Property Disposal Agreement, the New Subscription Agreement and the New Shareholders' Agreement as we consider that they form part of the overall Revised Transactions. In particular we have taken into account the following in arriving at our recommendation:

- the prices of the Shares in the past six months prior to the announcement of the transactions on 2nd April, 2002 and 10th July, 2002, and up to 29th July, 2002;
- the financial and trading performance of the Group's artificial Christmas trees and festive products and leisure furniture operations for the five years ended 31st March, 2002 and the prospects for these businesses;
- the implied price earnings multiple and price to book ratio of the Revised Transactions;
- the alternative approaches by other bidders;
- dividend yield and historic dividend payout ratio;
- the proposed conditional Special Cash Dividend distribution to Shareholders;
- the support and promotion of the Revised Transactions by Mr. Kao;
- the controlling interest in the Company held by Mr. Kao and his family;
- the terms of the investment in GIHL; and
- the prospects of the Group after the Revised Transactions.

While we note that the consideration receivable under the disposal is in line with the prevailing market valuation of the Company and the average price earnings multiple of other industrial stocks traded on the Hong Kong stock market, the consideration of the Revised Transactions represent merely the investment value of a minority interest and is inadequate as it does not carry a premium that is expected to be paid by a purchaser for control over the principal businesses of the Company. Shareholders,

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however, should also bear in mind that the Founder and Chairman, Mr. Kao, who is interested in 56.9% of the Company and has over 33 years working experience in the artificial Christmas trees manufacturing industry, has actively supported and promoted the New Disposal Agreement and his judgement of the terms may be considered by Shareholders to be a persuasive factor in favour of the Revised Transactions. Nevertheless, we consider that the terms of the Revised Transactions do not adequately reflect the value of the Businesses to be sold and we therefore do not consider the terms to be fair and reasonable. Accordingly we advise the Shareholders to vote against the resolution to approve the Revised Transactions set out in the ordinary resolution to be considered at the First Special General Meeting.

The special resolution to approve the Special Cash Dividend to be considered at the Second Special General Meeting on 30th August, 2002 is conditional on the passing of the ordinary resolution to approve the Revised Transaction to be considered at the First Special General Meeting on 19th August, 2002. We consider that it would be in the interests of the Shareholders to receive the Special Cash Dividend in the event the Revised Transactions are approved. Accordingly, we recommend Shareholders to vote in favour of the special resolution irrespective of whether they vote for or against the resolution relating to the Revised Transaction.

Shareholders should be reminded that the liquidity in the Shares has been poor in recent years with only on average 0.10% of the issued share capital of the Company being traded in the past twelve months period, although there have been occasions when turnover has increased substantially. Further, regard should be taken of the fact that the Company is a controlled company in which Mr. Kao and his family have an effective control of over 50%, and Shareholders who are not members of the Kao family cannot control the disposition of the assets of the Group or implement proposals which would result in the underlying asset value of the Group being realised and the proceeds returned to Shareholders without the support of the Kao family. In these circumstances, it may not be possible to dispose of a significant amount of Shares in the market without depressing the Share price. The current proposals, including the proposed conditional special cash distribution, if the Revised Transactions are completed, provides Shareholders with the opportunity of receiving a significant portion of their investment in cash, while retaining an indirect interest in the Businesses previously wholly owned by the Group, and a listed company with the computer graphics animation business, which although unproven and is generally regarded as relatively more risky than the Group's current principal businesses, may have good prospects. **If the Revised Transactions are not completed, Shareholders will still participate in the computer graphics animation business of the Imagi Group as well as the entire established Christmas tree, festive products and leisure furniture businesses.**

Yours faithfully,
for and on behalf of
Anglo Chinese Corporate Finance, Limited
Dennis Cassidy
Director

The following is the text of two letters prepared for the purpose of incorporation in this circular received from FPD Savills in connection with their opinion of the value of the Boto Property as at 30th July, 2002 and 20th February, 2002 respectively:-

FPDSavills
第一太平戴維斯 INTERNATIONAL PROPERTY CONSULTANTS

FPDSavills (Hong Kong) Limited
23/F Two Exchange Square,
Central, Hong Kong

Telephone: 2801-6100
Direct Line: 2801-6100
Direct Fax: 2530-0756

www.fpsavills.com

FPDSavills International

2nd August, 2002

The Directors
Boto International Holdings Limited
17th Floor, Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

Dear Sirs,

Re: Flats 1 to 12 (inclusive) on 17th Floor, Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong.

We refer to our valuation report dated 2nd August, 2002 of the above property valued as at 20th February, 2002 and your further instruction to provide our opinion of value of the property as at 30th July, 2002.

We confirm that we have made relevant enquiries and investigations as we consider necessary for the purpose of providing you with our opinion of the open market value of the property as at 30th July, 2002.

We have valued the property by direct comparison method. This method is conducted by collecting and analysing relevant sales comparables in the locality.

Based on the above, our opinion of the open market value of the property as at 30th July, 2002 in its existing state is in the sum of HK\$13,500,000 (Hong Kong Dollars Thirteen Million Five Hundred Thousand).

Our valuation is subject to the assumptions and limiting conditions as contained in the said valuation report.

Yours faithfully,
For and behalf of
FPDSavills (Hong Kong) Limited
Gilbert C H Chan
BSc (Hons), AHKIS, MRICS, RPS (GP)
Associate Director
Valuation and Consultancy

Note: Mr. Gilbert C H Chan is a chartered surveyor with over 9 years' valuation experience on properties in Hong Kong.



FPDSavills (Hong Kong) Limited
23/F Two Exchange Square,
Central, Hong Kong

Telephone: 2801-6100
Direct Line: 2801-6100
Direct Fax: 2530-0756

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FPDSavills International

2nd August, 2002

The Directors
Boto International Holdings Limited
17th Floor, Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

Dear Sirs,

Re: Flats 1 to 12 (inclusive) on 17th Floor, Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong.

In accordance with your instructions for us to prepare a report on the open market value of the above property, we confirm that we have inspected the property, caused land searches at the Land Registry, made relevant enquiries and investigations as we consider necessary for the purpose of providing you with our opinion of the value of the property as at 20th February, 2002.

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

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

Our valuation is made in accordance with the Guidance Notes on the Valuation of Property Assets published by the Hong Kong Institute of Surveyors.

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

We have relied to a considerable extent on information provided by you and have accepted advice given to us on such matters as statutory notices, occupancy details, easements, floor area and other relevant matters.

All documents have been used for reference only. Except otherwise stated, all dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by you and are therefore approximate. We have no reason to doubt the truth and accuracy of the information provided to us by you. We have also been advised by you that no material facts have been omitted from the information provided and have no reason to suspect that any material information has been withheld.

Other special assumptions of the property have been stated in the footnotes of the valuation certificate for the property.

We have not been provided with copies of the title documents relating to the property but have caused searches to be made at the Land Registry. However, we have not searched the original documents to verify ownership or to verify any lease amendments which may not appear on the copies handed to us.

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

No structural survey has been made nor were any tests carried out on any of the services. We are therefore unable to report whether the property is free from rot, infestation or any other defects.

We have not verified and make no representation that the property, including any plant and equipment therein, is millennium compliant, or that the value of the property is not adversely affected in any way by any part of it not being millennium compliant within the meaning of BSI definition of Year 2000 compliance.

Our valuation certificate is attached hereto.

Yours faithfully,
For and on behalf of
FPDSavills (Hong Kong) Limited
Gilbert C H Chan
BSc (Hons), AHKIS, MRICS, RPS (GP)
Associate Director
Valuation and Consultancy

Note: Mr. Gilbert C H Chan is a chartered surveyor with over 9 years' valuation experience on properties in Hong Kong.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Open Market Value as at 20th February, 2002
Flats 1 to 12 (inclusive), 17th Floor, Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong	The property comprises the whole of 17th floor of Eight Commercial Tower which is an industrial/office development completed in 1994.	The property is currently owner-occupied.	HK\$13,500,000
187/5,400 th shares of Chai Wan Inland Lot No. 144	The gross floor area of the property is approximately 17,350 sq.ft. (1,611.87 sq.m.). The saleable area of the property is approximately 11,802 sq.ft. (1,096.44 sq.m.). The property is held under Conditions of Sale No. 12119 for a lease term from 11th December, 1990 to 30th June, 2047. The current Government Rent payable for the property is 3% of the then rateable value of the property.		

Notes:

- The current registered owner of the property is Boto Company Limited vide Memorial No. 6121837 dated 25th August, 1994.
- The property is subject to the following encumbrances:-
 - Occupation Permit No. H6/94 vide Memorial No. 5897666 dated 11th January, 1994.
 - Certified True Copy of Letter of Compliance vide Memorial No. 5966285 dated 18th March, 1994 from District Lands Office, Hong Kong East to Keneva Company Limited.
 - Deed of Mutual Covenant and Management Agreement with plan vide Memorial No. 5991475 dated 8th April, 1994.
 - Agreement for sale and purchase in favour of Greenland Far East Limited for a consideration of HK\$13,500,000 vide Memorial No. 8730747 dated 10th July, 2002.
- The breakdown gross floor area and saleable area of the property is approximately as follows:

Unit No.	Gross Floor Area		Saleable Area	
	sq.ft.	sq.m.	sq.ft.	sq.m.
1	1,575	146.32	1,071	99.50
2	1,617	150.22	1,100	102.19
3	1,636	151.99	1,113	103.40
4	965	89.65	656	60.94
5	1,300	120.77	885	82.22
6	1,843	171.22	1,254	116.50
7	1,717	159.51	1,168	108.51
8	1,820	169.08	1,238	115.01
9	1,096	101.82	745	69.21
10	971	90.21	661	61.41
11	1,185	110.09	806	74.88
12	1,625	150.97	1,105	102.66
Total	<u>17,350</u>	<u>1,611.87</u>	<u>11,802</u>	<u>1,096.44</u>

4. According to the developer's sales brochure of the subject development, the ceiling height and floor loading capacity of the subject floor are approximately 10.3 feet (3.145 metres) and 150 lbs per sq.ft. (750 kg/sq.m.).
5. According to the Architect's Certificate dated 7th August, 2001 issued by Eric Design Architect Limited, the conversions (being the demolition of partition walls, doors, toilets and erection of toilets) of the subject property do not constitute any structural alteration.
6. We have valued the property on an open market basis assuming sale with the benefit of vacant possession.
7. We have valued the property by direct comparison method. This method is conducted by collecting and analysing the relevant sales comparables within the subject development as well as other similar industrial premises in the locality.

1. FINANCIAL RESULTS

Set out below is the financial results of the Group for the year ended 31st March, 2002, with a segmentation between the Businesses to be disposed of by the Group and the remaining computer graphics animation business. **Shareholders should note that the allocation of certain corporate expenses which could not specifically be identified between the Businesses and the remaining computer graphics animations business was performed on an estimation basis considered by the Directors to be reasonable in the circumstances. The segmentation is shown for indicative purposes only and should not be relied upon as an indication of the future performance of either the Businesses or the computer graphics animation business:–**

	Year ended 31st March, 2002		
	Businesses to be disposed (Unaudited) <i>HK\$ million</i>	Computer graphics animation (Unaudited) <i>HK\$ million</i>	Group total (Audited) <i>HK\$ million</i>
Turnover	1,071.3	1.6	1,072.9
Cost of sales	(709.2)	(0.2)	(709.4)
Gross profit	362.1	1.4	363.5
Other income	5.6	0.4	6.0
Distribution costs	(130.6)	–	(130.6)
Administrative expenses	(77.2)	(9.8)	(87.0)
Profit from operations	159.9	(8.0)	151.9
Finance costs	(6.4)	(0.1)	(6.5)
Bank interest income	2.7	–	2.7
Profit before taxation	156.2	(8.1)	148.1
Taxation	(6.8)	–	(6.8)
Profit before minority interests	149.4	(8.1)	141.3
Minority interests	–	0.1	0.1
Net profit for the year	<u>149.4</u>	<u>(8.0)</u>	<u>141.4</u>

2. INDEBTEDNESS

As at the close of business on 30th June, 2002, being the latest practicable date for the purpose of preparation of this indebtedness statement, the Group had outstanding unsecured borrowings of approximately HK\$257,213,000, comprising bank loans and overdrafts of approximately HK\$165,851,000, trust receipt loans of approximately HK\$76,406,000 and obligations under finance lease of approximately HK\$14,956,000.

At the same date, the Group had contingent liabilities in respect of bills discounted with recourse of approximately HK\$1,891,000. Also, the Group had a number of employees who have completed the required number of years of service under the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (the “Employment Ordinance”) in order to be eligible for long service

payments upon termination of their employment if the circumstances specified in the Employment Ordinance are satisfied. If the employment of all these employees were terminated on 30th June, 2002 and if the circumstances specified in the Employment Ordinance were satisfied, the Group's liability for long service payment as at that date would have been approximately HK\$6,059,000.

Save as aforesaid and apart from intra-group liabilities, as at the close of business on 30th June, 2002, the Group did not have any material outstanding mortgages, charges, debentures or other loan capital, bank overdrafts, loans or other similar indebtedness, finance lease commitments, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have not been any material adverse changes in the indebtedness and contingent liabilities of the Group since 30th June, 2002.

For the purpose of the above indebtedness statement, amounts denominated in currencies other than Hong Kong dollars have been translated into Hong Kong dollars at the applicable rates of exchange prevailing as at the close of business on 30th June, 2002.

3. MATERIAL CHANGE

Pursuant to the New Disposal Agreement, the New Boto Property Disposal Agreement, the New Subscription Agreement and the New Shareholders' Agreement, the Company will effectively dispose of 75% of the Group's Businesses and retain 25% of the Businesses through Topway. Save for the aforesaid effective disposal and the proposed distribution of the Special Cash Dividend, the Directors are not aware of any material adverse change in the financial or trading position of the Company since 31st March, 2002 (being the date to which the latest audited consolidated financial statements of the Company were made up).

4. WORKING CAPITAL

Taking into account the Group's internal resources and present available banking facilities, the Directors are of the opinion that upon Completion, the Group will have sufficient working capital for its present requirements.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests of the Directors in the equity or debt securities of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong) (the “SDI Ordinance”) which have been notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which are required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:–

Name of Directors	Number of Shares held		
	Personal interest	Corporate interest	Other interest
Mr. Kao	62,055,000	31,243,410 (note 1)	1,864,474,990 (note 2)
Mr. Francis Kao	2,500,000	17,500,000 (note 3)	–
Mr. Lam	6,780,000	–	–
Mr. Kui	21,000,000	–	51,934,410 (note 4)
Ms. Tsen Yun Lei, Liliana	21,000,000	–	169,435,300 (note 5)

Notes:

- (1) These Shares are held by Kessuda Consultants Limited whose entire issued share capital is beneficially owned by Mr. Kao.
- (2) Of these Shares, 40,659,960 Shares are beneficially owned by Happy Nation, whose entire issued share capital is beneficially owned by China Link Holding Limited, whose entire issued share capital is in turn beneficially owned by HSBC International Trustee Limited, acting as trustee for The Cheerco Trust, of which Mr. Kao and his family members are discretionary objects. The remaining 1,823,815,030 Shares are beneficially owned by Sunni, 51% of whose issued share capital is beneficially owned by Happy Nation.
- (3) These Shares are held by Asia Pacific Glory Limited whose entire issued share capital is beneficially owned by Mr. Francis Kao.

- (4) These Shares are beneficially owned by Golden Jungle Limited, whose entire issued share capital is beneficially owned by Cheong Kin Management Limited, whose entire issued share capital is in turn beneficially owned by HSBC International Trustee Limited, acting as trustee for Kui Yiu Ngok Family Trust, of which Mr. Kui and his family members are discretionary objects.
- (5) These Shares are beneficially owned by Pleasure International Limited, whose entire issued share capital is beneficially owned by Sunshine Concept Investment Limited, whose entire issued share capital is in turn beneficially owned by HSBC International Trustee Limited, acting as trustee for Gary Cheng Ka Yun Family Trust, of which Ms. Tsen Yun Lei, Liliana and her family members are discretionary objects.

Other than as disclosed above and the interests in certain non-voting 5% deferred shares in the subsidiaries of the Company and the nominee shares in certain subsidiaries held in trust for the Group, as at the Latest Practicable Date, no Director was interested in any equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which he is taken or deemed to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance) or which were required, pursuant to Section 29 of the SDI Ordinance, to be entered in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

- (b) Each of Mr. Kao, Mr. Lam, Mr. Kui and Ms. Tsen Yun Lei, Liliana has entered into a service contract with the Company, which either party can terminate by giving six months' termination notice or six months' salary in lieu thereof. Save for the aforesaid, as at the Latest Practicable Date, none of the Director(s) nor proposed Director had any existing or proposed service contract (excluding contracts expiring or determinable by any member of the Group within one year without payment of compensation (other than statutory compensation)) with any member of the Group.
- (c) Since 31st March, 2002, being the date to which the latest published audited financial statements of the Company were made, and up to and including the Latest Practicable Date, none of the Directors, the proposed Director or FPD Savills or Anglo Chinese had any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to the any member of the Group, or are proposed to be acquired or disposed of by or leased to the any member of the Group (other than the Disposal Agreement and the Boto Property Disposal Agreement and the transactions contemplated thereunder) save as disclosed below:–

Each of Mr. Kao, Mr. Kui and Ms. Tsen Yun Lei, Liliana, all of whom are Directors, has beneficial interests in the following companies which have leased certain premises to the Group for use as its offices:

Lessor	Leased premises	Monthly rental	Term
Boko Glass Art Company Limited	Units 2208, 2303, 2304, 2305, 2306, 2307, 2308, 2310, 2312 and 2313, Hong Man Industrial Centre, 2 Hong Man Street, Chai Wan, Hong Kong.	HK\$80,000	1st March, 2002 to 29th February, 2004
Glory Dragon (Hong Kong) Limited	The entire 16th Floor, Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong	HK\$112,800	Monthly renewal, expecting to terminate upon Completion

- (d) Save for the Disposal Agreement and the Boto Property Disposal Agreement, there is no contract or arrangement subsisting at the date of this circular in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

3. SUBSTANTIAL SHAREHOLDER

As at the Latest Practicable Date, so far as is known to the Directors, the person (other than a Director or chief executive of the Company) who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group and the amount of each of such person's interest in such shares were as follows:

(i) The Company

Name of registered owner	Name of beneficial owner	Number of Shares	Percentage of shareholding held
Sunni	See <i>note</i>	1,823,815,030	53.0%

Note: 51% of the issued share capital of Sunni is beneficially owned by Happy Nation, whose entire issued capital is beneficially owned by China Link Holding Limited, whose entire issued share capital is in turn beneficially owned by HSBC International Trustee Limited, acting as trustee for The Cheerco Trust, of which Mr. Kao and his family members are discretionary objects.

(ii) The subsidiaries of the Company

Name of subsidiary	Name of substantial shareholder	Number and class of shares	Percentage of shareholding held
Imagi	Mr. Tang Tung Ming, Tony	5,000 ordinary shares	17.5%
Imagi International Japan Company Limited	Mr. Kobayashi Shinichi	35 ordinary shares	17.5%

Save as disclosed herein, the Directors are not aware of any other persons (other than a Director or chief executive of the Company) who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or in any options in respect of such share capital as at the Latest Practicable Date.

4. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) had been entered into by the Group within two years preceding the date of this circular and which are or may be material:

- (i) the Disposal Agreement;
- (ii) the Boto Property Disposal Agreement;
- (iii) the New Disposal Agreement;
- (iv) the New Boto Property Disposal Agreement;
- (v) the New Subscription Agreement;
- (vi) the New Shareholders' Agreement;
- (vii) the Deed of Termination; and
- (viii) the Cancellation Agreement.

5. LITIGATION

No member of the Group is engaged in any litigation or arbitration proceedings of material importance to the Group and no litigation or claim of material importance to the Group is known to the Directors to be pending or threatened against any member of the Group other than as set out below:–

- (i) Agio International Company, Ltd. (“Agió”) has alleged that Boli has infringed Agio’s US Patent No. 6,293, 624 entitled “Sling Chair”. However, Agio has not initiated formal legal proceedings against Boli. Boli has denied all such allegations by Agio.
- (ii) On 30th March, 2001 and 21st March, 2002, Boto Company received notice of additional assessment from the Inland Revenue Department of Hong Kong (“IRD”) in respect of the years of assessment 1994/95 and 1995/96 respectively. Boto Company was not in agreement to the above notices of additional assessment and has lodged objections with the IRD. Pending settlement of the objections, the IRD has agreed with Boto Company on the respective provisional payments of HK\$5 million on 11th May, 2001 and HK\$3.63 million on 16th May, 2002. The amount of HK\$5 million paid on 11th May, 2001 has been included in taxation recoverable in the consolidated balance sheet of the Group as at 31st March, 2002.

6. CONSENTS

Each of Anglo Chinese and FPDSavills has given and has not withdrawn their respective written consents to the issue of this circular with the inclusion of their reports, letters and references to their names in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of FPDSavills or Anglo Chinese have any interest in the securities of the Company or any of its subsidiaries or any rights (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in the Company or any of its subsidiaries.

7. GENERAL

The secretary of the Company is Mr. Lam, who is a member of The Institute of Chartered Accountants in Australia, The Hong Kong Institute of Company Secretaries and the Hong Kong Society of Accountants. He is also a Justice of Peace, New South Wales, Australia.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal office hours at the registered office of the Company for 14 days from the date of this circular and at the First Special General Meeting:

- (a) the memorandum and bye-laws of the Company;
- (b) the annual report of the Company for the 2 years ended 31st March, 2002;
- (c) the service contracts of Mr. Kao, Mr. Lam, Mr. Kui and Ms. Tsen Yun Lei, Liliana referred to in paragraph 2 above;
- (d) the material contracts disclosed in paragraph 4 above;
- (e) the letter of advice from Anglo Chinese, the text of which is set out on pages 34 to 54 of this circular;
- (f) the valuation report from FPDSavills on the Boto Property as set out in Appendix I to this circular; and
- (g) the consent letters referred to in paragraph 6 above.

NOTICE OF FIRST SPECIAL GENERAL MEETING



BOTO INTERNATIONAL HOLDINGS LIMITED **寶途集團國際有限公司***

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of Boto International Holdings Limited (the “Company”) will be held at 10:30 a.m. on Monday, 19th August, 2002 at 16th Floor, Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:–

ORDINARY RESOLUTION

“THAT:

(a) the following agreements:–

- (i) the conditional sale and purchase agreement dated 10th July, 2002 between the Company, Boto Company Limited (“**Boto Company**”), Greenland General Company Limited (“**GGCL**”), and Greenland Far East Limited (“**GFEL**”) in relation to the disposal by the Company and Boto Company to GGCL and GFEL of (1) 10,000 ordinary shares of US\$1.00 each in the capital of Boto Strategic Holdings Limited, (2) 10,000 Class B shares of HK\$1.00 each in the capital of Bo Cheong Manufacturing Company Limited, (3) the business of the sale of artificial Christmas trees and related accessories, and purchase of raw materials carried on by Boto Company under its own name (the “**Boto Business**”), (4) the tangible and intangible assets of Boto Company relating to the Boto Business and (5) the amounts payable by Goldenform Company Limited to the Company (together with all ancillary documents and agreements contemplated thereunder);
- (ii) the conditional sale and purchase agreement dated 10th July, 2002 relating to the sale of Units 1 to 12 on 17th Floor of Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong by Boto Company to GFEL;
- (iii) the conditional subscription agreement dated 10th July, 2002 between certain limited partnerships affiliated with the Carlyle Group, Topway Assets Limited (“**Topway**”) (a wholly-owned subsidiary of the Company) and Greenland Investments Holdings Limited (“**GIHL**”) relating to, among other things, the subscription of shares in GIHL by Topway and the limited partnerships affiliated with the Carlyle Group (the “**New Subscription Agreement**”);

* For identification only

NOTICE OF FIRST SPECIAL GENERAL MEETING

- (iv) the conditional shareholders' agreement dated 10th July, 2002 between the limited partnerships affiliated with the Carlyle Group (who are parties to the New Subscription Agreement) and Topway (the "**New Shareholders' Agreement**") (**having** particular regard to the possible dilution of the Company's interest in GIHL under the New Shareholders' Agreement pursuant to its provisions relating to, among other things, the right of first offer, the right of first refusal, the co-sale right, the drag-along right and default share transfer);
- (v) the consultancy services agreement to be entered into between the Company and GFEL (on completion of the New Disposal Agreement) relating to the Company's procurement of four nominated individuals, namely, Mr Kao Cheung Chong, Michael, Mr Lam Pak Kin, Philip, Ms Kao Wai Wing, Vivian and Mr Kui Yiu Ngok, to perform certain duties to GIHL,

(a copy of each of which is tabled at the meeting and marked "A", "B", "C", "D" and "E" respectively and signed for identification by the chairman of the meeting; and collectively referred to as the "**Transaction Documents**") and the implementation of the transactions contemplated under these agreements be and are hereby approved, ratified and confirmed; and

- (b) the directors of the Company be and are hereby authorized to exercise all such powers and do all such acts as they consider necessary or desirable to give effect to the transactions contemplated under all the Transaction documents including, without limitation, the power and discretion to give directions to Topway with respect to the exercise of the right of first offer, the right of first refusal and the co-sale right and the provision relating to anti-dilution rights and default share transfer under the New Shareholders' Agreement (as the case may be)."

By order of the Board
Lam Pak Kin, Philip
*Deputy Managing Director and
Company Secretary*

Dated: 2nd August, 2002

Principal place of business in Hong Kong:
17th Floor, Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the First Special General Meeting is entitled to appoint a proxy to attend and vote in his stead and any such member who is a holder of 2 or more shares in the Company is entitled to appoint more than one proxy to attend and vote in his stead. A proxy need not be a member of the Company.
2. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority shall be deposited at the Company's branch share registrars, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for holding the First Special General Meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the First Special General Meeting or any adjourned meeting should you so wish.
3. A pink form of proxy for use in respect of the First Special General Meeting is enclosed herewith.

NOTICE OF SECOND SPECIAL GENERAL MEETING



BOTO INTERNATIONAL HOLDINGS LIMITED **寶途集團國際有限公司***

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a special general meeting of Boto International Holdings Limited (the “Company”) will be held at 10:30 a.m. on Friday, 30th August, 2002 at 16th Floor, Eight Commercial Tower, 8 Sun Yip Street, Chai Wan, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution as a special resolution of the Company:–

SPECIAL RESOLUTION

“**THAT** conditional upon the passing of the ordinary resolution contained in the notice covering the special general meeting of the Company to be held at 10:30 a.m. on Monday, 19th August, 2002 or any adjournments thereof, and completion of the agreements referred to in paragraphs (a)(i) and (a)(ii) of the aforementioned ordinary resolution taking place,

- (a) an amount of HK\$276,359,963.07 standing to the credit of the share premium account of the Company as at 30th August, 2002 be cancelled and the credit arising be transferred to the contributed surplus account of the Company and the Directors be and are hereby authorised to apply appropriate sums from such contributed surplus account towards payment of the Special Cash Dividend referred to in paragraph (b) of this resolution; and
- (b) a special cash dividend (“**Special Cash Dividend**”) of HK\$0.26 per Share totalling HK\$894,380,500 recommended by the board of directors be declared for payment out of the funds of the Company available for dividend and distribution on 4th September, 2002 to shareholders whose names appear in the register of members of the Company on 30th August, 2002.”

By order of the Board
Lam Pak Kin, Philip
*Deputy Managing Director and
Company Secretary*

Dated: 2nd August, 2002

Principal place of business in Hong Kong:
17th Floor, Eight Commercial Tower
8 Sun Yip Street
Chai Wan
Hong Kong

* *For identification only*

NOTICE OF SECOND SPECIAL GENERAL MEETING

Notes:

1. Any member of the Company entitled to attend and vote at the Second Special General Meeting is entitled to appoint a proxy to attend and vote in his stead and any such member who is a holder of 2 or more shares in the Company is entitled to appoint more than one proxy to attend and vote in his stead. A proxy need not be a member of the Company.
2. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority shall be deposited at the Company's branch share registrars, Secretaries Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for holding the Second Special General Meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the Second Special General Meeting or any adjourned meeting should you so wish.
3. A blue form of proxy for use in respect of the Second Special General Meeting is enclosed herewith.