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## IMPORTANT

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

If you have sold or transferred all your shares in China Investment Fund Company Limited, you should at once hand this circular and the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular does not constitute an offer of, nor is it calculated to invite offers for, shares of China Investment Fund Company Limited.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this circular, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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中國投資

## CHINA INVESTMENT FUND COMPANY LIMITED

*(incorporated in the Cayman Islands with limited liability)*

(Stock Code: 612)

**(1) OPEN OFFER TO QUALIFYING SHAREHOLDERS ON  
THE BASIS OF 5 OFFER SHARES FOR EVERY 1 SHARE HELD  
AND  
(2) RENEWAL OF GENERAL MANDATES  
AND  
(3) CHANGE OF INVESTMENT OBJECTIVES AND POLICIES AND  
INVESTMENT RESTRICTIONS**

**Manager and Underwriter of the Open Offer**



**Baron Capital Limited**

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It should be noted that the Underwriting Agreement contains certain provisions granting the Underwriter the right to terminate the Underwriting Agreement by notice in writing to the Company at any time on or before 5:00 p.m. on the third business day after the Acceptance Date, if there occurs any force majeure events (as set out in the section headed "Termination of the Underwriting Agreement" on page 16 of this circular) at any time between the date of the Underwriting Agreement and 4:00 p.m. on the third business day after the Acceptance Date. If the Underwriter exercises such right and terminates the Underwriting Agreement, the obligations of the Underwriter under the Underwriting Agreement will cease and the Open Offer will not proceed. The Open Offer, save and except for the Offer Shares undertaken to be procured for subscription by the Principal Shareholder, will be fully underwritten by the Underwriter.

A notice convening the EGM to be held at 10:00 a.m. on 8 April 2004 at 4/F., Aon China Building, 29 Queen's Road Central, Central, Hong Kong is set out on pages 53 to 58 of this circular. If you are not able to attend the EGM, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the share registrar of the Company in Hong Kong, Standard Registrar Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong and in any event by no later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM or any adjournment thereof should you so wish.

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## **RESPONSIBILITY STATEMENT**

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This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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.

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## SUMMARY OF THE OPEN OFFER

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*The following information is derived from, and should be read in conjunction with, the full text of this circular.*

### General

Authorised share capital	Authorised share capital of the Company as at the Latest Practicable Date, being HK\$6,000,000 divided into 600,000,000 Shares of HK\$0.01 each
Issued share capital	Issued share capital of the Company as at the Latest Practicable Date, being HK\$800,000 divided into 80,000,000 Shares
Number of existing Shares in issue	80,000,000 Shares
Basis of the Open Offer	5 Offer Shares for every 1 Share held by Qualifying Shareholders as at the Record Date
Number of Offer Shares to be issued	400,000,000 Shares
Amount to be raised	HK\$50,000,000 before expenses
Subscription Price for Offer Shares and Acceptance Date	HK\$0.125 per Offer Share payable in full on acceptance at or prior to 4:00 p.m. on 30 April 2004
Status of the Offer Shares	The Offer Shares, when fully paid, will rank pari passu in all respects with the issued Shares then existing. Holders of the Offer Shares will be entitled to receive all dividends and distributions which may be declared by the Company after the allotment and issue of the Offer Shares
Excess applications	Qualifying Shareholders may not apply for Offer Shares in excess of their assured allotments

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## SUMMARY OF THE OPEN OFFER

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### **Termination of the Underwriting Agreement:**

Baron Capital has the right, by notice in writing to the Company, to terminate the Underwriting Agreement if at any time between the date of the Underwriting Agreement and 4:00 p.m. on the third business day after the Acceptance Date:

- (i) there shall develop, occur, exist or come into effect:
  - (a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority or other occurrence of similar nature including without limitation abolition or repeal of any existing law or regulation; or
  - (b) any change in local, national or international financial, political, military, industrial, economic, currency, market or regulatory conditions; or
  - (c) any change in the conditions of local, national or international securities markets (or in conditions affecting a sector only of such market); or
  - (d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise and on commercial banking activities in Hong Kong or any other relevant jurisdiction or place as declared by the relevant authorities; or
  - (e) a change or development involving a prospective change in Hong Kong, the People's Republic of China or the Cayman Islands taxation or exchange controls which will or may materially and adversely affect the Company and its subsidiaries as a whole or the present or prospective Shareholders in their capacity as such; or
  - (f) the outbreak or escalation of hostilities or armed conflict, or the declaration of a national emergency or war or the occurrence of any other calamity or crisis; or
  - (g) any other event of force majeure, including without limitation act of God, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, labour dispute, strike or lock-out; or

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## SUMMARY OF THE OPEN OFFER

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(h) any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of Baron Capital has or is likely to have a material adverse effect on the prospect of the Company or any of its subsidiaries taken as a whole; or

which, in the reasonable opinion of Baron Capital, has or is likely to have a material adverse effect on the success of the Open Offer or makes it inadvisable or inexpedient to proceed with the same; or

(ii) there comes to the notice of Baron Capital any matter or event showing any of the representations, warranties and undertakings contained in the Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by Baron Capital to be material or showing any of the undertakings or other obligations to be assumed by the Company and the Principal Shareholder under the Underwriting Agreement not to have been complied with in any respect considered by Baron Capital to be material; or

(iii) the Company shall fail promptly to send out any announcement or circular or take any actions (after the despatch of the Open Offer Documents), in such manner (and as appropriate with such contents) as Baron Capital may reasonably request for the purpose of preventing the creation of a false market in the Shares,

**If Baron Capital exercises such right and terminates the Underwriting Agreement, the obligations of Baron Capital under the Open Offer will cease and the Open Offer will not proceed.**

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## EXPECTED TIMETABLE

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*Dates or deadlines specified in this circular for events in the timetable for (or otherwise in relation to) the Open Offer is indicative only and may be exercised or varied by agreement between the Company and Baron Capital. Any consequential changes to the expected timetable will be published or notified to Shareholders appropriately.*

2004

April

Last day of dealings in Shares on a cum-entitlement basis . . . . . Friday 2

Commencement of dealings in Shares on an ex-entitlement basis . . . . . Tuesday 6

Latest time for return of proxy form for EGM . . . . . 10:00 a.m., Tuesday 6

Latest time for lodging transfers of Shares in order to  
qualify for the Open Offer . . . . . 4:00 p.m., Wednesday 7

EGM . . . . . 10:00 a.m., Thursday 8

Register of members closes (both days inclusive) . . . . . Thursday to Tuesday 8 to 13

Record Date . . . . . Tuesday 13

Despatch of the Open Offer Documents . . . . . Tuesday 13

Register of members re-open . . . . . Wednesday 14

Latest time for acceptance of the Offer Shares and payment . . . . . 4:00 p.m., Friday 30

May

Latest time for Baron Capital to terminate  
the Underwriting Agreement . . . . . 4:00 p.m., Wednesday 5

Announcement of the results of the Open Offer to be published . . . . . Friday 7

Share certificates for Offer Shares to be posted on or before . . . . . Monday 10

Commencement of trading in fully-paid Offer Shares . . . . . Wednesday 12

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## DEFINITIONS

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

“Acceptance Date”	the last date for the acceptance of, and payment for, the Offer Shares
“Application Form”	the form of application for the Offer Shares enclosed with the Prospectus sent to the Qualifying Shareholders
“associate(s)”	has the meaning given to it in the Listing Rules
“BAML”	Baron Asset Management Limited, a limited liability company incorporated in Hong Kong and a licensed corporation perform Type 4 and Type 9 regulated activities under the SFO and the investment manager of the Company
“Baron Capital” or “Underwriter”	Baron Capital Limited, a limited liability company incorporated in Hong Kong and a licensed corporation to perform Type 1 and Type 6 regulated activities under the SFO and the manager and underwriter of the Open Offer
“Baron Group”	Baron Capital, BAML and their subsidiaries
“business day”	a day, other than a Saturday, on which banks in Hong Kong are open for business
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Act”	the Companies Law of the Cayman Islands (as amended)
“Companies Ordinance”	Companies Ordinance (Cap. 32 of the Laws of Hong Kong)
“Company”	China Investment Fund Company Limited, a company incorporated in the Cayman Islands with limited liability, whose Shares are listed on the Stock Exchange under Chapter 21 of the Listing Rules



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## DEFINITIONS

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“Capital Builder”	Capital Builder Investment Limited, a company incorporated in the British Virgin Islands with limited liability and an associate of Baron Capital and holds 19.995% of the issued share capital of the Company
“Directors”	directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held on 8 April 2004 (notice of which is set out on pages 53 to 58 of this circular) at which, among other things, resolutions will be proposed to consider and, if thought fit, to approve the Open Offer, the grant of the General Mandates and the proposed change of the investment objectives and policies and investment restrictions of the Company
“General Mandates”	the Issue Mandate and the Repurchase Mandate
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Issue Mandate”	a new general and unconditional mandate proposed to be granted to the Directors to exercise the powers of the Company to allot, issue or otherwise deal with new Shares with an aggregate nominal amount not exceeding 20% of the existing issued share capital of the Company
“Latest Practicable Date”	19 March 2004, being the latest date prior to the printing of this circular for asserting certain information
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Offer Shares”	400,000,000 new Shares proposed to be offered to Qualifying Shareholders to subscribe for pursuant to the Open Offer
“Open Offer”	the proposed open offer of 5 Offer Shares for every 1 Share to Qualifying Shareholders on the Record Date

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## DEFINITIONS

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“Open Offer Documents”	the Prospectus and the Application Form
“Overseas Shareholders”	Shareholders whose names appear on the register of members of the Company on the Record Date and whose addresses as shown on such register are outside Hong Kong
“PRC”	the People’s Republic of China
“Principal Shareholder”	Cosmopolitan International Holdings Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“Prospectus”	a prospectus containing the details of, among other things, the Open Offer
“Prospectus Posting Date”	the date of posting of the Open Offer Documents, which is expected to be on 13 April 2004
“Qualifying Shareholder(s)”	Shareholder(s) who, on the Record Date, has/have address(es) in Hong Kong on the register of members of the Company
“Record Date”	13 April 2004, being the date by reference to which entitlements to the Open Offer are expected to be determined
“Resolution”	the ordinary resolution to be proposed at the EGM for the approval of the Open Offer set out in the notice of the EGM contained in this circular
“Repurchase Mandate”	a new general and unconditional mandate proposed to be granted to the Directors to exercise the power of the Company to repurchase Shares with an aggregate nominal amount not exceeding 10% of the existing issued share capital of the Company
“SFC”	The Securities and Futures Commission
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Share(s)”	shares of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$0.125 per Offer Share pursuant to the Open Offer
“subsidiary”	has the meaning given to it under the Companies Ordinance
“Takeovers Code”	the Codes on Takeovers and Mergers and Share Repurchases promulgated by the SFC
“Underwriting Agreement”	the conditional underwriting agreement dated 26 February 2004 entered into between, among others, Baron Capital and the Company in relation to the underwriting of the Open Offer
“US”	the United States of America
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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## LETTER FROM THE BOARD

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中 國 投 資

### CHINA INVESTMENT FUND COMPANY LIMITED

*(incorporated in the Cayman Islands with limited liability)*

*Directors:*

*Executive Directors:*

Wan Chuen Hing, Alexander

Ng Hon Cheung, Sannio

*Independent non-executive Directors:*

Lok Shing Kwan, Sunny

Yan Man Keung, Ronald

*Registered office:*

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

*Principal place of business:*

4/F, Aon China Building

29 Queen's Road Central

Central

Hong Kong

22 March 2004

*To the Shareholders*

Dear Sir or Madam,

**(1) OPEN OFFER TO QUALIFYING SHAREHOLDERS ON  
THE BASIS OF 5 OFFER SHARES FOR EVERY 1 SHARE HELD**

**AND**

**(2) RENEWAL OF GENERAL MANDATES**

**AND**

**(3) CHANGE OF INVESTMENT OBJECTIVES AND POLICIES AND  
INVESTMENT RESTRICTIONS**

#### INTRODUCTION

It was announced by the Directors on 4 March 2004 that the Company proposed to: (i) raise HK\$50 million before expenses by way of an open offer of 400,000,000 Offer Shares at the Subscription Price of HK\$0.125 per Offer Share on the basis of 5 Offer Shares for every 1 Share held by the Qualifying Shareholders as at the Record Date; and (ii) the grant of the General Mandates.

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## LETTER FROM THE BOARD

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By the announcement issued by the Company on 19 March 2004, the Directors also proposed to change the investment objectives and policies and investment restrictions of the Company.

The purpose of this circular is to provide you with further details regarding (i) the Open Offer; (ii) the grant of the General Mandates; (iii) the change of the investment objectives and policies and investment restrictions of the Company and (iv) to give notice to the Shareholders of the EGM at which resolutions will be proposed to consider and if though fit, to approve the Open Offer, the grant of the General Mandates and the change of the investment objectives and policies and investment restrictions of the Company.

### OPEN OFFER

On 26 February 2004, the Underwriting Agreement was entered into, among others, the Company and Baron Capital in respect of the Open Offer. Details of the Open Offer are set out below.

#### Issue statistics

Basis of the Open Offer:	5 Offer Shares for every 1 Share held by Qualifying Shareholders as at the Record Date
Number of existing Shares in issue:	80,000,000 Shares
Number of Offer Shares and Subscription Price:	400,000,000 Offer Shares at HK\$0.125 per Offer Share

As at the date hereof, the Company has no outstanding options, warrants or convertible instruments to subscribe for any Shares.

#### Qualifying Shareholders

To qualify for the Open Offer, a Shareholder must on the Record Date:

- (i) be registered as a member of the Company; and
- (ii) has an address in Hong Kong which appears on the register of members of the Company.

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## LETTER FROM THE BOARD

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**In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of Shares (with the relevant share certificates) with the share registrar of the Company in Hong Kong, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by 4:00 p.m. on 7 April 2004.** The register of members of the Company will be closed from 8 April 2004 to 13 April 2004, both dates inclusive. No transfer of Shares will be registered during that period of time.

The invitation to apply for the Offer Shares will not be transferable or capable of renunciation and there will not be any trading of nil-paid entitlements of the Offer Shares on the Stock Exchange.

As at the date hereof, the Company has no outstanding options, warrants or convertible instruments to subscribe for any Shares. No new Shares will be issued from date hereof up to the Record Date.

### TERMS OF THE OPEN OFFER

#### Subscription Price

HK\$0.125 per Offer Share, payable in full when a Qualifying Shareholder applies for any Offer Shares in the Open Offer. The Subscription Price represents:

- (i) a discount of 50% to the closing price of HK\$0.25 per Share as quoted on the Stock Exchange on 25 February 2004 (being the last trading day prior to the date of the Underwriting Agreement);
- (ii) a discount of approximately 14.38% to the theoretical ex-entitlement price of approximately HK\$0.146 per Share based on the aforesaid closing price per Share; and
- (iii) a discount of approximately 48.98% to the average closing price of the Shares of approximately HK\$0.245 per Shares as quoted on the Stock Exchange on the last 10 trading days up to and including 25 February 2004.
- (iv) a discount of approximately 21.88% to the unaudited pro forma consolidated net tangible asset value per Share after the Open Offer.

The Subscription Price has been determined based on arm's length negotiations between the Company and Baron Capital with reference to the prevailing market prices of the Shares and in light of the low trading volume of the Shares and the difficulty to obtain debt financing in the present market. In light of the low trading volume of the Shares, the Directors consider that it would be difficult to raise funding in the equity market through issue of new Shares without

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## LETTER FROM THE BOARD

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offering discounts of subscription price so as to attract sufficient demand. The Directors consider that such a discount provides an incentive to attract participation by Qualifying Shareholders in the Open Offer and to finance the Company's growth. In addition, the Directors consider that the investments are intended to be made on a medium-term basis in line with its investment objectives and it would be difficult to obtain debt financing in the present market. As such, the Directors consider that the terms of the Open Offer to be fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

### **Status of the Offer Shares**

When fully paid, the Offer Shares will rank *pari passu* in all respects with the Shares. Holders of the Offer Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the allotment and issue of the Offer Shares.

### **Fractions of the Offer Shares**

The Company will not allot fractions of the Offer Shares. The Offer Shares arising from the aggregation of fractional entitlements (if any), to which the Qualifying Shareholders would otherwise have been entitled under the Open Offer, and the Offer Shares to which the Overseas Shareholders would otherwise have been entitled under the Open Offer, will be taken up by Baron Capital and its sub-underwriters.

### **No application for Offer Shares in excess of assured allotment**

Under the Open Offer, the Qualifying Shareholders are not entitled to apply for any Offer Shares which are in excess of their entitlements but they are assured of the allotment of the Offer Shares comprised in their entitlements.

### **Share certificates**

Subject to the fulfilment of the conditions of the Open Offer, certificates for all fully-paid Offer Shares are expected to be posted to successful applicants on the terms of the Open Offer at their own risks on or before 10 May 2004.

### **Rights of Overseas Shareholders**

An offer of Shares to the Overseas Shareholders will require, among others, registration of the Open Offer Documents, compliance with the securities law and disclosure in each of the relevant overseas jurisdictions where each of the Overseas Shareholders are situated. This is very burdensome, costly and administratively not viable. As such, the Open Offer Documents will not be registered under the applicable securities legislation in any jurisdictions other than in Hong Kong

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## LETTER FROM THE BOARD

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and the Overseas Shareholders will not be entitled to take part in the Open Offer. The Company will send the Circular and the Prospectus to the Overseas Shareholders for their information only. However, the Overseas Shareholders are entitled to attend and vote at the EGM.

### **Application for listing**

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Offer Shares. Dealings in Offer Shares will be subject to the payment of stamp duty, SFC transaction levy and any other applicable fees and charges in Hong Kong.

No part of the Company's securities are listed or dealt in on any other stock exchange, nor application for the listing of or permission to deal in the Offer Shares on any other stock exchange is being or proposed to be sought.

The Offer Shares will be listed on the Stock Exchange only and not on any other stock exchange.

Subject to the granting of listing of, and permission to deal in, the Offer Shares on the Stock Exchange, the Offer Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Offer Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

### **UNDERWRITING AGREEMENT**

#### **Underwriting Agreement**

Date:	26 February 2004
Number of Offer Shares underwritten:	310,380,000 Offer Shares
Underwriter:	Baron Capital

As at the date hereof, Baron Capital and its associate, Capital Builder, together hold 19.995% of the issued share capital of the Company. Baron Capital is only deemed to be interested in 19.995% shareholdings in the Company held by Capital Builder. Save as above, Baron Capital does not directly or indirectly hold any shareholding in the Company as at the date hereof. Capital Builder is wholly-owned by Ms. Mak Wai Chun, the wife of Mr. Wan Chuen Chung, Joseph. Baron Capital is beneficially owned as to 90% of its entire issued share capital indirectly by Mr. Wan



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## LETTER FROM THE BOARD

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Chuen Chung, Joseph. Capital Builder is not a member of the Baron Group. As such, it is Capital Builder, not Baron Capital, to subscribe for the respective Offer Shares. Capital Builder has not yet indicated whether or not it will take up its assured allotment under the Open Offer. In order to comply with the requirements in the Listing Rules, those Offer Shares are agreed to be underwritten by Baron Capital under the Underwriting Agreement. This provides a financial backing to the Company in making the Open Offer so that the Company can ensure that all of the Offer Shares will be taken up. Receiving underwriting commission is under the ordinary and normal course of business of Baron Capital as securities underwriting business is one of its principal activities. In addition, Baron Capital is a fellow subsidiary of BAML, the investment manager of the Company. Save as disclosed herein, Baron Capital has no other interest in the Group. The entering into of the Underwriting Agreement between Baron Capital and the Company constitutes a connected transaction of the Company and is subject to the requirements of Rule 14.24(6)(c) of the Listing Rules. Baron Capital and its associates will abstain from voting at the EGM.

Pursuant to Rule 7.24(5) of the Listing Rules, the Open Offer is conditional on approval by the Shareholders at the EGM by the Resolution on which any controlling shareholder shall abstain from voting. As at the date hereof, the Company has no controlling shareholder who is entitled to exercise or control the exercise of 30% or more of the voting power at the general meetings of the Company or take part in the management of the Company or control the board of Directors. Therefore, save for Baron Capital and its associates who will abstain from voting at the EGM, all of the Shareholders (including the Principal Shareholder, Ip Ki Cheung and Cheng Fat Ning, Lenda) shall be entitled to vote and be counted into quorum in the Resolution to be considered and, if appropriate, approved at the EGM. Both Ip Kai Cheung and Cheng Fat Ning, Lenda have not yet indicated whether or not they will take up their respective assured allotment under the Open Offer.

### **Commission**

The Company will pay to Baron Capital a documentation fee of HK\$180,000 and an underwriting commission of 2.5% of the aggregate Subscription Price of the Offer Shares to be issued under the Open Offer (excluding the Offer Shares undertaken to be procured for subscription by the Principal Shareholder for assured entitlement to its nominees). Save as disclosed above, there are no other payments to Baron Capital and its associates under the Underwriting Agreement.

### **Undertaking by the Principal Shareholder**

As at the Latest Practicable Date, the Principal Shareholder is beneficially interested in an aggregate of 17,924,000 Shares, representing 22.405% of the existing issued share capital of the Company. The Principal Shareholder has given irrevocable undertaking to the Company that the Shares indirectly and beneficially owned by it (through its nominees) will remain directly or indirectly and beneficially owned by it from the date hereof up to the Record Date. The Principal Shareholder has also irrevocably undertaken to procure acceptance of an aggregate of 89,620,000 Offer Shares,

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## LETTER FROM THE BOARD

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being the aggregate of the number of Offer Shares as corresponding to the assured allotment of the Offer Shares to its nominees as the holder of such Offer Shares under the Open Offer. The Principal Shareholder has not underwritten any of the Offer Shares under the Underwriting Agreement.

### **Termination of the Underwriting Agreement:**

Baron Capital has the right, by notice in writing to the Company, to terminate the Underwriting Agreement if at any time between the date of the Underwriting Agreement and 4:00 p.m. on the third business day after the Acceptance Date:

- (i) there shall develop, occur, exist or come into effect:
  - (a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority or other occurrence of similar nature including without limitation abolition or repeal of any existing law or regulation; or
  - (b) any change in local, national or international financial, political, military, industrial, economic, currency, market or regulatory conditions; or
  - (c) any change in the conditions of local, national or international securities markets (or in conditions affecting a sector only of such market); or
  - (d) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise and on commercial banking activities in Hong Kong or any other relevant jurisdiction or place as declared by the relevant authorities; or
  - (e) a change or development involving a prospective change in Hong Kong, the People's Republic of China or the Cayman Islands taxation or exchange controls which will or may materially and adversely affect the Company and its subsidiaries as a whole or the present or prospective Shareholders in their capacity as such; or
  - (f) the outbreak or escalation of hostilities or armed conflict, or the declaration of a national emergency or war or the occurrence of any other calamity or crisis; or
  - (g) any other event of force majeure, including without limitation act of God, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, labour dispute, strike or lock-out; or

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## LETTER FROM THE BOARD

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(h) any change in the circumstances of the Company or any member of the Group which in the reasonable opinion of Baron Capital has or is likely to have a material adverse effect on the prospect of the Company or any of its subsidiaries taken as a whole; or

which, in the reasonable opinion of Baron Capital, has or is likely to have a material adverse effect on the success of the Open Offer or makes it inadvisable or inexpedient to proceed with the same; or

(ii) there comes to the notice of Baron Capital any matter or event showing any of the representations, warranties and undertakings contained in the Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect considered by Baron Capital to be material or showing any of the undertakings or other obligations to be assumed by the Company and the Principal Shareholder under the Underwriting Agreement not to have been complied with in any respect considered by Baron Capital to be material; or

(iii) the Company shall fail promptly to send out any announcement or circular or take any actions (after the despatch of the Open Offer Documents), in such manner (and as appropriate with such contents) as Baron Capital may reasonably request for the purpose of preventing the creation of a false market in the Shares,

**If Baron Capital exercises such right and terminates the Underwriting Agreement, the obligations of Baron Capital under the Open Offer will cease and the Open Offer will not proceed.**

### CONDITIONS OF THE OPEN OFFER

The Open Offer is conditional on the following conditions being fulfilled:

- (a) this circular (duly approved by the Stock Exchange) being duly posted to Shareholders on or before 27 March, 2004;
- (b) the Resolution being duly passed (without amendment) at the EGM or at any adjournment thereof (duly held and constituted) by no later than the Prospectus Posting Date;
- (c) the obtaining of requisite approvals (if any) from, and the filing of a copy of the Open Offer Documents (where necessary) with, the relevant governmental, monetary or other regulatory body (as the case may be) in the Cayman Islands for the implementation of the Open Offer and the issue of the Offer Shares;

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## LETTER FROM THE BOARD

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- (d) the signing by or on behalf of each Director of four copies of each of the Open Offer Documents and the delivery of one such signed copy of each of the Open Offer Documents to Baron Capital and two copies thereof to the Stock Exchange in compliance with the Listing Rules by no later than the Prospectus Posting Date and the Open Offer Documents having been approved in all respects by the Stock Exchange;
- (e) the filing with and registration of the Open Offer Documents together with all the documents required to be attached thereto by the Companies Ordinance, (all having been duly authorised for registration by the Stock Exchange and signed by or on behalf of two of the Directors) by the Registrar of Companies in Hong Kong in compliance with the Companies Ordinance by no later than the Prospectus Posting Date;
- (f) the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms;
- (g) the Principal Shareholder's representations and warranties under the Underwriting Agreement having been true and accurate in all material respects and their undertakings therein having been duly performed and complied with;
- (h) the posting to the Qualifying Shareholders of the Open Offer Documents on or before the Prospectus Posting Date and the posting of the Prospectus stamped "For Information Only" to the Overseas Shareholders; and
- (i) the Listing Committee of the Stock Exchange granting or agreeing to grant, and not having revoked, the listings of, and permission to deal in, the Offer Shares either unconditionally or subject to conditions to which the Company accepts by not later than the Prospectus Posting Date (or such other date as may be agreed between the Company and Baron Capital).

### REASONS FOR THE OPEN OFFER AND USE OF PROCEEDS

The Company is an investment company whose Shares are listed on the Stock Exchange under Chapter 21 of the Listing Rules.

The Company intends to utilize the net proceeds from the Open Offer, which is estimated to be approximately HK\$48,500,000, in making investments in the PRC, Hong Kong and/or overseas and for general working capital purposes. As the investments are intended to be made on a medium-term basis in line with its investment objectives, it would be difficult to obtain debt financing in the present markets. The Company currently has no specific plans of the investments. There is no other open offer or rights issue transactions of the Company in the preceding 12 months.

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## LETTER FROM THE BOARD

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The Company considers that rights issue is not appropriate in the circumstances as longer period and more complicate procedures are required for raising capital. In addition, the only material difference between a rights issue and an open offer is the existence of nil-paid trading rights in the former case, which may be traded in the stock market when the price of the rights issue is attractive. The Directors consider that the Open Offer is more time and cost effective and is in interests of the Company and the Shareholders as a whole.

The Directors are of the opinion that it is logical to have sufficient capital in advance in order to make investments when opportunities arise. They consider that the Open Offer will enable the Company to have sufficient standby capital for any future investment opportunities which in accordance with the experience of the Directors may be so sudden and short-lived.

The Directors consider the Open Offer is an appropriate method to raise capital as the Open Offer will allow Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company. The Directors further consider that the Open Offer will not only enlarge the capital base of the Company but also allow the Shareholders to participate in the growth of the Company, and therefore the Open Offer is in the interests of the Company and the Shareholders as a whole.

### **BUSINESS REVIEW AND PROSPECTS**

#### **Business Review**

The Company is principally engaged in investment in listed and unlisted companies. For the six months ended 30 June 2003, the Group reported a loss of approximately HK\$1.9 million. The loss was mainly due to the Group's operating expenses in Hong Kong.

In recent years, China's economy has continued to report strong growth. In view of that, the Group has continued to hold shares in Hong Kong listed company which is principally engaged in the real estate industry in mainland China. The Directors will regularly review the investment portfolio of the Group in order to achieve the Group's investment objective. With the robust Chinese economy and the recent improvement in market sentiment in worldwide financial markets, the Directors believe that ample investment opportunities will emerge. The Directors will continue to seek investment targets that will increase return for the Shareholders.

In addition to making investment in the PRC real estate industry as disclosed in the interim report of the Company dated 4 September 2003, the Group is actively seeking for other investment opportunities that will bring a steady long-term growth in the Group's performance. China's accession to the WTO and preferential policies for foreign investment in Western China leave huge and far-reaching influences on all industries in the PRC and Hong Kong. In the long run, economic activities will be boosted up and attractive investment opportunities will be brought out.

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## LETTER FROM THE BOARD

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The Group is open-minded on all investment opportunities. The Directors will always take a cautious and prudent approach in formulating the Group's overall investment strategies and making investment decisions. With the extensive investment experience of the Directors, the Group has confidence and determination to meet challenges in the new era, with a view to maximizing returns for the Shareholders.

### Investment Objectives and Policies and Investment Restrictions

Under the current investment objectives and policies of the Company, the Company will principally invest in listed and unlisted companies in the PRC and Hong Kong. The Company may from time to time make up to 20% of its investments outside the PRC and Hong Kong should the Directors believe that such investments may provide attractive returns. In light of the recent improvement in market sentiment in the worldwide financial markets, the Directors believe that investment opportunities in other places may emerge. In order to enhance the flexibility in evaluating and making investments in other regions, the Directors propose to amend the restriction on investment overseas to the effect that Company may invest not more than 40% its assets outside the PRC and Hong Kong and the investment objectives and policies accordingly. The Directors believe that such amendment will be beneficial to the Shareholders as the Company may capture more investment opportunities. The proposed change of the Company's investment objectives and policies and the amendment of the investment restriction will be subject to approval of the Shareholders by way of an ordinary resolution at the EGM.

### EFFECT ON THE SHAREHOLDING

	Scenario 1		Scenario 2		Scenario 3	
	Shares	%	Shares	%	Shares	%
Principal Shareholder (and its nominees)	17,924,000	22.405	107,544,000	22.405	107,544,000	22.405
Baron Capital and its associates	15,996,000	19.995	95,976,000	19.995	95,976,000	19.995
Ip Ki Cheung	15,436,000	19.295	92,616,000	19.295	15,436,000	3.216
Cheng Fat Ning, Lenda	14,396,000	17.995	86,376,000	17.995	14,396,000	3.00
Public	16,248,000	20.310	97,488,000	20.310	16,248,000	3.385
Sub-underwriters	–	–	–	–	230,400,000	47.999
<b>Total</b>	<b>80,000,000</b>	<b>100</b>	<b>480,000,000</b>	<b>100</b>	<b>480,000,000</b>	<b>100</b>

Scenario 1: Shareholding as at the date hereof.

Scenario 2: Shareholding immediately after the completion of the Open Offer (assuming all Qualifying Shareholders (including the Principal Shareholder through its nominees and the associate of Baron Capital) take up their respective entitlements to the Offer Shares).

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## LETTER FROM THE BOARD

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Scenario 3: Shareholding immediately after the completion of the Open Offer (assuming no acceptance are made by the Qualifying Shareholders with the exception of the Principal Shareholder (through its nominees) to the Open Offer, and assuming all the Offer Shares (save and except for the Offer Shares undertaken to be procured for subscription by the Principal Shareholder) are taken up by Baron Capital and its sub-underwriters as a result of underwriting). Baron Capital and its associates are interested in 19.995% in aggregate of the entire issued share capital of the Company (being 15,996,000 Shares) as at the date of this circular. Either the associates of Baron Capital will subscribe or Baron Capital will underwrite the assured entitlement of the Offer Shares to the associates of the Baron Capital under the Open Offer such that upon completion of the Open Offer, the aggregate shareholding of Baron Capital and its associates will remain to be 19.995% in aggregate (being 95,976,000 Shares) of the enlarged issued share capital of the Company.

Pursuant to the Underwriting Agreement, Baron Capital has entered into sub-underwriting agreements with its sub-underwriters who has committed to sub-underwrite the remaining 230,400,000 Offer Shares. Upon completion of the Open Offer, each sub-underwriter will not alone or together with persons acting in concert with it hold or become interested in 10% or more of the issued share capital of the Company as enlarged by the Open Offer. The sub-underwriting participation by the sub-underwriters is conditional, among others, the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms.

Baron Capital and its associates are connected persons of the Company pursuant to the definitions of the Listing Rules. Save that (1) Baron Capital and its associates together hold 19.995% of the entire issued share capital of the Company; (2) Baron Capital is a fellow subsidiary of BAML, the investment manager of the Company; (3) Mr. Wan Chuen Hing, Alexander, has been an executive Director since the listing of the Shares on the Stock Exchange; and (4) Mr. Wan Chuen Hing, Alexander is the brother of Mr. Wan Chuen Chung, Joseph, the ultimate beneficial shareholder of Baron Capital and BAML, Baron Capital and the sub-underwriters are independent of, not connected with and not acting in concert with any Directors, chief executives, substantial shareholders of the Company and/or its subsidiaries or any of their respective associates.

Upon completion of the Open Offer, no Shareholder alone or together with persons acting in concert with it will hold 30% or more of the voting rights of the Company.

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## LETTER FROM THE BOARD

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### WARNING OF THE RISKS OF DEALING IN SHARES

Shares will be dealt with on an ex-entitlements basis from 6 April 2004. If Baron Capital terminates the Underwriting Agreement, or the conditions of the Open Offer are not fulfilled, the Open Offer will not proceed. Any person dealing in the ex-entitlement Shares will accordingly bear the risk that the Open Offer may not become unconditional and may not proceed.

Any Shareholder or other person contemplating selling or purchasing Shares during such period who is in any doubt about his/her position is recommended to consult his/her own professional adviser.

### RENEWAL OF GENERAL MANDATES

Ordinary resolutions will be proposed at the EGM to grant new general and unconditional mandates to the Directors to exercise the powers of the Company to (i) allot, issue or otherwise deal with new Shares with an aggregate nominal amount not exceeding 20% of the existing issued share capital of the Company (the "Issue Mandate"); (ii) repurchase Shares with an aggregate nominal amount not exceeding 10% of the existing issued share capital of the Company (the "Repurchase Mandate") and (iii) extend the Issue Mandate by an amount representing the aggregate nominal value of the Shares repurchased by the Company pursuant to and in accordance with the Repurchase Mandate.

The existing general mandates for the issue and repurchase of Shares approved by the Shareholders in the annual general meeting of the Company on 30 April 2003 will be replaced by the proposed Issue Mandate and Repurchase Mandate, if approved by the Shareholders at the EGM. As at the date of this circular, 80,000,000 Shares have been issued and no Shares have been repurchased under such general mandates approved on 30 April 2003.

### EGM

A notice convening the EGM to be held at 10:00 a.m. on 8 April 2004 at 4/F., Aon China Building, 29 Queen's Road Central, Central, Hong Kong as set out on pages 53 to 58 of this circular. At the EGM, ordinary resolutions will be proposed to consider and, if thought fit, to be passed by the Shareholders to approve, among others, (i) the Open Offer; (ii) the grant of the General Mandates and (iii) the change of investment objectives, policies and investment restrictions of the Company. The Open Offer is conditional on, among others, the passing by Shareholders at the EGM of the Resolution to approve the Open Offer and the issue of the Offer Shares. Baron Capital and its associates will abstain from voting at the EGM.



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## LETTER FROM THE BOARD

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You will find enclosed a form of proxy for use at the EGM. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the share registrar of the Company in Hong Kong, Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

### RECOMMENDATION

The Directors consider that the (i) the Open Offer; (ii) the grant of the General Mandates and (iii) the change of the investment objectives and policies and investment restrictions of the Company are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM.

### FURTHER INFORMATION

Subject to, among other matters, the Shareholders' approval of the Open Offer at the EGM, it is expected that the Open Offer Documents will be despatched to the Qualifying Shareholders and the Prospectus will be despatched, for information only, to the Overseas Shareholders on 13 April 2004.

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the board of Directors of  
**China Investment Fund Company Limited**  
**Wan Chuen Hing, Alexander**  
*Executive Director*

## SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following completion of the Open Offer will be as follows:

<i>Authorised:</i>		<i>HK\$</i> <i>(Nominal Value)</i>
<u>600,000,000</u>	Shares as at the Latest Practicable Date	<u>6,000,000</u>
 <i>Issued (and paid up) and to be issued:</i>		 <i>HK\$</i> <i>(Nominal Value)</i>
80,000,000	Shares in issue as at the Latest Practicable Date	800,000
<u>400,000,000</u>	Shares to be issued pursuant to the Open Offer	<u>4,000,000</u>
<u>480,000,000</u>		<u>4,800,000</u>

All the Shares currently in issue rank pari passu in all respects with each other, including dividends, voting rights and capital.

The Company has no outstanding convertible securities, warrants, options, founder or management or deferred shares and derivatives in respect of the Shares.

## SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the audited consolidated results of the Group for each of the year ended 31 December 2002 and for the period ended 31 December 2001:

	<b>Year ended 2002 HK\$</b>	For the period from 18 September 2001* to 31 December 2001 HK\$
Turnover	–	–
Interest income	<b>450,140</b>	18,140
Unrealised loss on investments in securities	<b>(1,881,876)</b>	–
Other operating expenses	<b>(4,212,558)</b>	(327,566)
Loss before taxation	<b>(5,644,294)</b>	(309,426)
Taxation	–	–
Net loss for the year/period	<b><u>(5,644,294)</u></b>	<b><u>(309,426)</u></b>
Loss per share – basic	<b><u>(7.07) cents</u></b>	<b><u>(5.33) cents</u></b>

\* Date of incorporation of the Company

The following information are extracted from the audited financial statements of the Company in its annual report for the financial year ended 31 December 2002:

### CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2002*

		2002	For the period from 18 September 2001 to 31 December 2001
	<i>Notes</i>	<i>HK\$</i>	<i>HK\$</i>
Turnover		–	–
Interest income		450,140	18,140
Unrealised loss on investments in securities		(1,881,876)	–
Other operating expenses		(4,212,558)	(327,566)
Loss before taxation	5	(5,644,294)	(309,426)
Taxation	8	–	–
Net loss for the year/period		<u>(5,644,294)</u>	<u>(309,426)</u>
Loss per share – basic	9	<u>(7.07) cents</u>	<u>(5.33) cents</u>

## CONSOLIDATED BALANCE SHEET

At 31 December 2002

	<i>Notes</i>	<b>2002</b> <i>HK\$</i>	2001 <i>HK\$</i>
<b>Non-current assets</b>			
Property and equipment	<i>10</i>	<b>189,599</b>	–
<b>Current assets</b>			
Other receivables, prepayments and deposits		<b>213,029</b>	163,756
Investments in securities	<i>13</i>	<b>1,280,000</b>	–
Pledged bank deposits	<i>14</i>	<b>90,000</b>	–
Bank balances and cash		<b>28,429,245</b>	36,765,481
		<b>30,012,274</b>	36,929,237
<b>Current liabilities</b>			
Accrued charges		<b>148,996</b>	57,000
Amount due to a director	<i>15</i>	–	275,066
		<b>148,996</b>	332,066
<b>Net current assets</b>		<b>29,863,278</b>	36,597,171
<b>Net assets</b>		<b>30,052,877</b>	36,597,171
<b>Capital and reserves</b>			
Share capital	<i>16</i>	<b>800,000</b>	200,000
Shares to be issued	<i>17</i>	–	26,906,597
Share premium		<b>35,206,597</b>	9,800,000
Accumulated losses		<b>(5,953,720)</b>	(309,426)
<b>Total capital and reserve</b>		<b>30,052,877</b>	36,597,171

**APPENDIX I**
**FINANCIAL INFORMATION**
**BALANCE SHEET**
*At 31 December 2002*

	<i>Notes</i>	<b>2002</b> <i>HK\$</i>	2001 <i>HK\$</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property and equipment	<i>10</i>	<b>189,599</b>	–
Investments in subsidiaries	<i>11</i>	<b>16</b>	–
		<u><b>189,615</b></u>	<u>–</u>
<b>Current assets</b>			
Other receivables, prepayments and deposits		<b>213,029</b>	163,756
Amounts due from subsidiaries	<i>12</i>	<b>24,964</b>	–
Investments in securities	<i>13</i>	<b>1,280,000</b>	–
Pledged bank deposits	<i>14</i>	<b>90,000</b>	–
Bank balances and cash		<b>28,426,365</b>	36,765,481
		<u><b>30,034,358</b></u>	<u>36,929,237</u>
<b>Current liabilities</b>			
Accrued charges		<b>148,996</b>	57,000
Amount due to a director	<i>15</i>	–	275,066
		<u><b>148,996</b></u>	<u>332,066</u>
<b>Net current assets</b>		<u><b>29,885,362</b></u>	<u>36,597,171</u>
<b>Net assets</b>		<u><b>30,074,977</b></u>	<u>36,597,171</u>
<b>Capital and reserves</b>			
Share capital	<i>16</i>	<b>800,000</b>	200,000
Shares to be issued	<i>17</i>	–	26,906,597
Share premium		<b>35,206,597</b>	9,800,000
Accumulated losses		<b>(5,931,620)</b>	(309,426)
<b>Total capital and reserve</b>		<u><b>30,074,977</b></u>	<u>36,597,171</u>

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2002

	2002 HK\$	For the period from 18 September 2001 to 31 December 2001 HK\$
<b>OPERATING ACTIVITIES</b>		
Loss before taxation	(5,644,294)	(309,426)
Adjustments for:		
Interest income	(450,140)	(18,140)
Interest expense	2,219	–
Depreciation	46,442	–
Loss on disposal of property and equipment	39,810	–
Operating cash flows before movements in working capital	(6,005,963)	(327,566)
Increase in other receivables, prepayments and deposits	(49,273)	(163,756)
Increase in investments in securities	(1,280,000)	–
Increase in pledged bank deposits	(90,000)	–
Increase in accrued charges	91,996	57,000
(Decrease) increase in amount due to a director	(275,066)	275,066
Cash generated from operations	(7,608,306)	(159,256)
Interest received	450,140	18,140
Interest paid	(2,219)	–
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(7,160,385)</b>	<b>(141,116)</b>
<b>CASH USED IN INVESTING ACTIVITY</b>		
Purchase of property and equipment	(275,851)	–
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of new shares	–	10,000,000
Net proceeds from subscription for shares to be issued	–	26,906,597
Payment for share issue expenses	(900,000)	–
<b>NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES</b>	<b>(900,000)</b>	<b>36,906,597</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(8,336,236)</b>	<b>36,765,481</b>
<b>CASH AND CASH EQUIVALENT AT THE BEGINNING OF YEAR/PERIOD</b>	<b>36,765,481</b>	<b>–</b>
<b>CASH AND CASH EQUIVALENT AT END OF YEAR/PERIOD</b>	<b>28,429,245</b>	<b>36,765,481</b>

**NOTES TO THE FINANCIAL STATEMENTS****1. GENERAL**

The Company was incorporated on 18th September, 2001 as an exempted company with limited liability in the Cayman Islands under the Companies Law of the Cayman Islands.

The Company was established in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Details of the placing and new issue of the Company's shares are set out in the prospectus dated 18th December, 2001.

The shares of the Company were listed on the Stock Exchange with effect from 2nd January, 2002.

The Company is principally engaged in the investment in listed and unlisted companies.

**2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE**

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants which has resulted in a change in the following new and revised accounting policies. The adoption of these SSAPs has resulted in a change in the format of presentation of the cash flow statement and the disclosure of the statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

**Cash flow statements**

In the current year, the Group has adopted SSAP 15 (Revised) "Cash flow statements". Under SSAP 15 (Revised), cash flows are classified under three headings -operating, investing and financing, rather than the previous five headings. Interest which was previously presented under a separate heading, are classified as operating cash flows.

**Employee benefits**

In the current year, the Group has adopted SSAP 34 "Employee benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Group participates only in defined contribution retirement benefit scheme, the adoption of SSAP 34 has not had any material impact on the financial statements.



### 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

#### **Investments in subsidiaries**

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

#### **Revenue recognition**

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

#### **Property and equipment**

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

Depreciation is provided to write off the cost of items of property and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	Over the lease terms
Furniture, fixtures and office equipment	20%
Computer equipment	20%

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

**Impairment**

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

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

**Investment in securities**

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

At subsequent reporting dates, investments in securities are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

**Taxation**

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

**Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

**Retirement benefits scheme**

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

## 4. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group is principally engaged in investment in listed and unlisted companies and all the activities of the Group are based in Hong Kong.

## 5. LOSS BEFORE TAXATION

	<b>1.1.2002</b>	18.9.2001
	<b>to</b>	to
	<b>31.12.2002</b>	31.12.2001
	<i>HK\$</i>	<i>HK\$</i>
Loss before taxation has been arrived at after charging:		
Asset management fee	<b>500,000</b>	–
Auditors' remuneration	<b>55,000</b>	30,000
Depreciation	<b>46,442</b>	–
Interest on bank overdraft	<b>2,219</b>	–
Loss on disposal of property and equipment	<b>39,810</b>	–
Operating lease rentals in respect of office premises	<b>177,652</b>	–
Staff costs (including directors):		
Salaries and other benefits	<b>2,026,683</b>	292,000
Contributions to Mandatory Provident Fund Scheme	<b>60,365</b>	4,000
	<b>2,087,048</b>	296,000

## 6. DIRECTORS' EMOLUMENTS

	<b>1.1.2002</b>	18.9.2001
	<b>to</b>	to
	<b>31.12.2002</b>	31.12.2001
	<i>HK\$</i>	<i>HK\$</i>
Directors' fees:	–	–
Other emoluments:		
Salaries and other benefits	<b>1,213,213</b>	292,000
Contributions to the Mandatory Provident Fund Scheme	<b>26,319</b>	4,000
	<b>1,239,532</b>	296,000
Total	<b>1,239,532</b>	296,000

The amounts disclosed above include other emoluments of HK\$183,548 (2001: nil) payable to Independent Non-executive Directors.

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

## 7. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2001: five) were Directors of the Company whose emoluments are included in the disclosures in note 6 above. The emoluments of the remaining two (2001: nil) individuals were as follows:

	<b>1.1.2002</b> <b>to</b> <b>31.12.2002</b> <i>HK\$</i>	18.9.2001 <b>to</b> 31.12.2001 <i>HK\$</i>
Salaries and other benefits	<b>454,226</b>	–
Contribution to the Mandatory Provident Fund Scheme	<b>20,926</b>	–
Compensation for loss of office paid:		
– contractual	<b>19,000</b>	–
– others	<b>27,636</b>	–
	<b>521,788</b>	–

## 8. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company incurred a tax loss for the year/period.

Details of the potential deferred taxation not provided for are set out in note 19.

## 9. LOSS PER SHARE

The calculation of basic loss per share for the year is based on the loss for the year of HK\$5,644,294 (18.9.2001 to 31.12.2001: HK\$309,426) and on the weighted average number of 79,835,616 (18.9.2001 to 31.12.2001: 5,810,527) ordinary shares during the year.

No diluted loss per share is presented since the Company did not issue any dilutive potential ordinary shares during the year/period.

## 10. PROPERTY AND EQUIPMENT

	Leasehold improvements <i>HK\$</i>	Computer equipment <i>HK\$</i>	Furniture, fixtures and office equipment <i>HK\$</i>	Total <i>HK\$</i>
THE GROUP AND THE COMPANY				
COST				
Additions	125,092	58,476	92,283	275,851
Disposals	(38,080)	–	(20,458)	(58,538)
	<u>87,012</u>	<u>58,476</u>	<u>71,825</u>	<u>217,313</u>
DEPRECIATION				
Charge for the year	23,147	11,518	11,777	46,442
Eliminated on disposals	(15,896)	–	(2,832)	(18,728)
	<u>7,251</u>	<u>11,518</u>	<u>8,945</u>	<u>27,714</u>
NET BOOK VALUE				
At 31st December, 2002	<u>79,761</u>	<u>46,958</u>	<u>62,880</u>	<u>189,599</u>

## 11. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	<i>HK\$</i>	<i>HK\$</i>
Unlisted investments at cost	<u>16</u>	<u>–</u>

Details of the subsidiaries as at 31st December, 2002 are as follows:

Name of subsidiary	Country of incorporation	Class of shares held	Paid up issued ordinary share capital	Proportion of nominal value of issued capital directly held by the Company	Principal activity
Topkey International Limited	British Virgin Islands	Ordinary	US\$1	100%	Inactive
Asiawin International Limited	British Virgin Islands	Ordinary	US\$1	100%	Inactive

## 12. AMOUNTS DUE FROM SUBSIDIARIES

### THE COMPANY

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms.

## 13. INVESTMENTS IN SECURITIES

### THE GROUP AND THE COMPANY

	Number of shares		Fair value		Cost	
	2002	2001	2002	2001	2002	2001
			HK\$	HK\$	HK\$	HK\$
Equity securities listed in Hong Kong						
Zhong Hua International Holdings Limited ("Zhong Hua")	<u>10,000,000</u>	<u>-</u>	<u>1,280,000</u>	<u>-</u>	<u>3,161,876</u>	<u>-</u>

As at 31st December, 2002, investment in Zhong Hua represents 4.24% of the Group's total assets.

Zhong Hua is principally engaged in property development and investment in the People's Republic of China. As at 31st December, 2002, the Group holds 10,000,000 shares in Zhong Hua, representing an interest of 0.336% of Zhong Hua's issued share capital. The Group did not receive any dividend from Zhong Hua during the year. Based on the unaudited interim report 2002 of Zhong Hua, the net assets of Zhong Hua were approximately HK\$821 million as at 30th June, 2002.

**14. PLEDGED BANK DEPOSITS****THE GROUP AND THE COMPANY**

At the balance sheet date, bank deposits amounting to HK\$90,000 (2001: nil) have been pledged to secure outstanding corporate credit card balances of HK\$19,326 (2001: nil).

**15. AMOUNT DUE TO A DIRECTOR**

The amount due to a director was unsecured, interest-free and was repaid during the year.

**16. SHARE CAPITAL**

	Number of shares		Share capital	
	2002	2001	2002 HK\$	2001 HK\$
Ordinary shares at HK\$0.01 each				
Authorised:				
At beginning of year/period	<b>600,000,000</b>	10,000,000	<b>6,000,000</b>	100,000
Increase on 21st November, 2001	–	590,000,000	–	5,900,000
At end of year/period	<b><u>600,000,000</u></b>	<b><u>600,000,000</u></b>	<b><u>6,000,000</u></b>	<b><u>6,000,000</u></b>
Issued and fully paid:				
At beginning of year/period	<b>20,000,000</b>	–	<b>200,000</b>	–
Issued for cash proceeds	–	20,000,000	–	200,000
Issued on public flotation	<b>60,000,000</b>	–	<b>600,000</b>	–
At end of year/period	<b><u>80,000,000</u></b>	<b><u>20,000,000</u></b>	<b><u>800,000</u></b>	<b><u>200,000</u></b>

On 2nd January, 2002, the Company allotted and issued 60,000,000 new ordinary shares of HK\$0.01 each for cash at an aggregate consideration of HK\$30,000,000 to the public.

All the shares which were issued during the year/period rank pari passu with the then existing shares in all respects.

**17. SHARES TO BE ISSUED**

The amount represented the proceeds received for subscriptions of shares under placing and new issue, net of the related listing expenses of HK\$3,093,403 incurred prior to 31st December, 2001. The amount was converted into share capital and share premium on the listing of the shares of the Company on 2nd January, 2002.

**18. SHARE OPTIONS SCHEME**

The Company's share option scheme (the "Share Option Scheme") was adopted pursuant to a resolutions passed on 3rd December, 2001. The purpose of the Share Option Scheme is to enable the Company to grant options to selected participants as incentives and/or rewards for their contribution and support to the Company. Under the Share Option Scheme, the Board of Directors of the Company may grant options to eligible employees and executives, including all the Directors of the Company and any substantial shareholders as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") to subscribe for shares in the Company.

The maximum number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 30% of the shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual is not permitted to exceed 1% of the shares of the Company in issue during the twelve-month period before the date of grant, without prior approval from the Company's shareholders.

HK\$1 per option is payable on the acceptance of an option offer. Options may be exercised in accordance with the terms of the Share Option Scheme at any time during the five-year period commencing on the date upon which the option is accepted by the grantee and expiring on the last day of the five-year period or the expiry of the tenth anniversary of the Share Option Scheme, whichever is the earlier.

The exercise price is determined by the Board of Directors, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

The Share Option Scheme will remain in force for a period of 10 years commencing on 3rd December, 2001.

No option had been granted or agreed to be granted under the Share Option Scheme from the date of adoption of the scheme.



**19. UNPROVIDED DEFERRED TAXATION**

A deferred tax asset has not been recognised in the financial statements as it is not certain that the tax benefits will be realised in the foreseeable futures.

At the balance sheet date, the major components of the net unprovided deferred taxation assets are as follows:

	<b>THE GROUP AND THE COMPANY</b>	
	<b>2002</b>	2001
	<i>HK\$</i>	<i>HK\$</i>
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	<b>12,000</b>	–
Unutilised taxation losses	<b>(736,000)</b>	(52,000)
	<u><b>(724,000)</b></u>	<u>(52,000)</u>

The components of the unprovided deferred tax charge (credit) for the year/period are as follows:

	<b>THE GROUP AND THE COMPANY</b>	
	<b>1.1.2002</b>	18.9.2001
	to	to
	<b>31.12.2002</b>	31.12.2001
	<i>HK\$</i>	<i>HK\$</i>
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	<b>12,000</b>	–
Tax losses arising	<b>(684,000)</b>	(52,000)
	<u><b>(672,000)</b></u>	<u>(52,000)</u>

**20. OPERATING LEASE COMMITMENTS**

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

	<b>2002</b>	2001
	<i>HK\$</i>	<i>HK\$</i>
Within one year	<b>306,600</b>	–
In the second to fifth year inclusive	<b>242,725</b>	–
	<u><b>549,325</b></u>	<u>–</u>

Operating lease payments represent rentals payable by the Group and the Company for its office premises. Lease is negotiated for 2 years and monthly rent payment is fixed for 2 years.

**21. RETIREMENT BENEFITS PLAN**

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees. The assets of the scheme are held separately from those of the group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

**STATEMENT OF INDEBTEDNESS****Borrowing**

As at the close of business on 31 January 2004, being the Latest Practicable Date for the purpose of this indebtedness statement prior to the printing of this document, the Group had no outstanding bank borrowings and the Group had not given any guarantee to banks.

**Commitments**

As at 31 January 2004, the Group had commitments for total future minimum lease payments of approximately HK\$277,400.

**Disclaimer**

Save as aforesaid, the Group did not, at the close of business on 31 January 2004 have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong Dollars at the applicable rates of exchange prevailing at the close of the business on 31 January 2004.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the companies comprising the Group since 31 January 2004.

**WORKING CAPITAL**

The Directors are of the opinion that the working capital available to the Group is sufficient for its present requirements.

**MATERIAL CHANGES**

As at the Latest Practicable Date, save for the Open Offer, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 30 June 2003, the date to which the latest published financial statements to the Group were made up.

**PRO FORMA STATEMENT OF THE ADJUSTED UNAUDITED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

The following is a summary of the pro forma statement of the adjusted unaudited consolidated net tangible asset value of the Group based on the unaudited net tangible asset value of the Group as at 30 June 2003 and adjusted to take into account of transactions of the Open Offer:

	<i>HK\$'000</i>
Net tangible asset value based on the unaudited consolidated balance sheet of the Group as at 30 June 2003	28,147
<i>Add:</i> Estimated net proceeds from the Open Offer	<u>48,500</u>
Adjusted unaudited pro forma consolidated net tangible asset value	<u><u>76,647</u></u>
	<i>HK\$</i>
Unaudited pro forma consolidated net tangible asset value per Share before the Open Offer ( <i>note 1</i> )	<u><u>0.35</u></u>
Adjusted unaudited pro forma consolidated net tangible asset value per Share ( <i>note 2</i> )	<u><u>0.16</u></u>

*Notes:*

1. Based on 80,000,000 Shares in issue as at the Latest Practicable Date
2. Based on 480,000,000 Shares in issue upon completion of the Open Offer

*This appendix serves as an explanatory statement, as required by the Listing Rules to provide information to Shareholders regarding the Repurchase Mandate as referred to in the section headed “Renewal of General Mandates” on page 22 of this circular. For the purpose of this appendix, the term “shares” (unless otherwise stated) shall be as defined in the Takeovers Code which mean shares of all classes and securities which carry a right to subscribe for or purchase shares.*

## **1. INTRODUCTION**

The information set out below serves as explanatory statement in relation to the Repurchase Mandate as required under Rule 10.06(1)(b) of the Listing Rules to provide the Shareholders with all the information reasonably necessary for them to make an informed decision on whether to vote for or against the ordinary resolution approving the Repurchase Mandate at the EGM.

## **2. SHARE CAPITAL**

As at the Latest Practicable Date, the issued share capital of the Company comprised 80,000,000 Shares.

Assuming that no further Shares are issued or repurchased between the Latest Practicable Date and the date of the EGM, the Directors would be authorized to repurchase a maximum of 8,000,000 Shares.

## **3. REASONS FOR REPURCHASES**

The Directors believe that it is in the interests of the Company and the Shareholders to have the general authority from the Shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of net assets value and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and the Shareholders as a whole.

## **4. FUNDING OF REPURCHASES**

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and articles of association, the Listing Rules and the applicable laws of the Cayman Islands. The Company may not repurchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Any repurchase by the Company may be made out of profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if so authorised by the articles of association of the Company and subject to the provisions of the Companies Act, out of capital and, in the case of any premium payable on the repurchase, out of the profits of the Company or from sums standing to the credit of the share premium account of the Company or, if so authorised by the articles of association of the Company and subject to the Companies Act, out of capital.

There might be material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited accounts contained in the interim report for the six months period ended 30 June 2003) in the event that the Repurchase Mandate was to be exercised in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

## 5. SHARE PRICES

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

	<b>Highest</b> <i>HK\$</i>	<b>Lowest</b> <i>HK\$</i>
<b>Shares</b>		
<b>2003</b>		
March	0.390	0.350
April ( <i>Note</i> )	–	–
May ( <i>Note</i> )	–	–
June	0.285	0.200
July ( <i>Note</i> )	–	–
August	0.206	0.200
September	0.360	0.206
October	0.275	0.275
November ( <i>Note</i> )	–	–
December ( <i>Note</i> )	–	–
<b>2004</b>		
January	0.230	0.160
February	0.255	0.250
March up to the Latest Practicable Date	–	–

*Note:* No data is available as no Share were traded for the months April, May, July, November and December of 2003 and March (up to the latest Practicable Date) of 2004.

**6. GENERAL**

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

None of Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules), has any present intention to sell any Shares to the Company under the Repurchase Mandate if such is approved by the Shareholders.

If as a result of a share repurchase, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code. As a result, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

In the event that the Directors should exercise in full the power to repurchase Shares pursuant to the Repurchase Mandate (assuming the Open Offer becomes effective and the Principal Shareholder through its nominees takes up those Offer Shares undertaken to be procured for subscription by the Principal Shareholder), the shareholding of the Principal Shareholder (through its nominees) in the Company would be increased to approximately 22.78% of the issued share capital of the Company. The Directors consider that such an increase may not give rise to an obligation on the Principal Shareholder to make a mandatory offer under Rule 26 of the Takeovers Code.

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

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

**DISCLOSURE OF INTERESTS****Interests or short positions of directors in the share capital of the Company and its associated corporations**

As at the Latest Practicable Date, none of the Directors had any interests and short positions in the Shares, debentures or underlying Shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) which had to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO) or which were required pursuant to section 352 of the SFO, to be entered in the register referred therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

**Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders (as defined under the Listing Rules) of other members of the Group**

As at the Latest Practicable Date, so far as was known to the Directors, the following, not being a Director or a chief executive of the Company, had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be 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 or any other member of the Group:–

**Long positions in Shares**

Name	Number of Shares	Capacity	% of issued share capital of the Company
Cosmopolitan International Holdings Limited (and its nominees) <i>(Note 1)</i>	17,924,000	Beneficial owner	22.405
Baron Capital and its associate <i>(Note 2)</i>	15,996,000	Beneficial owner	19.995
Ip Ki Cheung <i>(Note 3)</i>	15,436,000	Beneficial owner	19.295
Cheng Fat Ning, Lenda <i>(Note 4)</i>	14,396,000	Beneficial owner	17.995
Lam Sai Mann <i>(Note 5)</i>	7,600,000	Beneficial owner	9.50



*Note 1* Cosmopolitan International Holdings Limited is deemed to be interested in 17,896,000 Shares held by Core Success Limited and 28,000 Shares held by Cosmopolitan Properties and Securities Limited. Both Core Success Limited and Cosmopolitan Properties and Securities Limited are wholly-owned by Cosmopolitan International Holdings Limited.

*Note 2* Baron Capital is deemed to be interested in 15,996,000 Shares held by its associates, Capital Builder Investments Limited. Capital Builder Investments Limited is wholly-owned by Mak Wai Chun. Mak Wai Chun is the wife of Wan Chuen Chung, Joseph, who indirectly and beneficially owns 90% interests in the issued share capital of Baron Capital.

*Note 3* Ip Ki Cheung is deemed to be interested in the 15,436,000 Shares held by Kenfair International (Holdings) Limited. Ip Ki Cheung is indirectly beneficially interested in 50% of the entire issued share capital of Capital Concord Profits Limited which holds 50.05% shareholding in Kenfair International (Holdings) Limited. Kenfair International (Holdings) Limited is a company whose shares are listed on the Stock Exchange.

*Note 4* Cheng Fat Ning, Lenda is deemed to be interested in 14,396,000 Shares held by Best News Investments Limited. Best News Investments Limited is wholly-owned by Cheng Fat Ning, Lenda.

*Note 5* Lam Sai Mann is deemed to be interested in 7,600,000 Shares held by Joint Success Limited. Joint Success Limited is wholly owned by Lam Sai Mann.

Save as disclosed above, the Directors are not aware of any person (not being a Director or chief executive of the Company) who has interests or short positions in the Shares or underlying Shares of the Company (which is discloseable under Divisions 2 and 3 of the Part XV of the SFO), or is 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 other member of the Group (which is discloseable under the Listing Rules).

## **MATERIAL CONTRACTS**

Save for the Underwriting Agreement, there are no other contracts (not being contracts entered into in the ordinary course of business of the Group) which have been entered into by the Group within two years immediately preceding the date of this circular and which are or may be material.

## **LITIGATION**

As at the Latest Practicable Date, there was no litigation or claim known to the Directors to be pending or threatened against any member of the Group.

**GENERAL**

Save as disclosed in this circular:

- (a) none of the Directors has any existing or proposed service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation other than statutory compensation;
- (b) none of the Directors is materially interested in any contract or arrangement subsisting at the date hereof which is significant in relation to the business of the Group taken as a whole;
- (c) since 30 June 2003, the date to which the latest published unaudited accounts of the Group have been made up, none of the Directors has, or has had, any direct or indirect interest in any assets acquired or disposed of by or leased to or which are proposed to be acquired or disposed of by or leased to, any member of the Group;
- (d) no share or loan capital of the Company or of any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (e) the Directors are not aware of any material adverse change in the financial or trading position of the Company since 30 June 2003, the date to which the latest published unaudited accounts of the Company have been made up; and
- (f) the Underwriter has no any shareholding, directly or indirectly, in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group.

**DIRECTORS****Executive Directors**

**Mr. Ng Hon Cheung, Sannio**, aged 42, is an executive Director. He joined the Company in 2003. Mr. Ng obtained a bachelor's degree in Commerce from the University of Toronto, Canada. He also has a master's degree in Business Administration from Oklahoma City University, the US. Mr. Ng is a fellow member of the Chartered Association of Certified Accountants and an associate member of the Hong Kong Society of Accountants. Since 2000, he has been the director of Sinox Fund Management Limited, the fund manager of 3 investment companies listed the Stock Exchange including GR Investment International Limited, Radford Capital Investment Limited and Unity Investments Holdings Limited.

**Mr. Wan Chuen Hing, Alexander**, aged 45, is an executive Director. He graduated with a bachelor's degree in arts majoring in economics from University of California, Berkeley, the US. He has also undertaken a master's degree course in business administration majoring in international management in Golden Gate University, US. He had passed the General Securities Representative Examination-Series 7 of NASD PROCTOR Certification Testing Centers/NYSE New York Stock Exchange, Inc.. Mr. Wan has over 18 years of banking experience in the US and the Asia Pacific region. During the period from 1995 to 1998, Mr. Wan was the manager of Asian Global Relationship Centers and the head of Credit and Corporate Finance for the West Coast Region of Citibank International Private Banking Group. He was responsible for the management and investment of high net worth clients' funds with a portfolio of over US\$500 million on a discretionary basis. During the period from 1998 to 1999, Mr. Wan was the managing director and head of Asia Pacific and the West Coast of Blue Stone Capital Partners, L.P., a US investment and merchant banking company. Mr. Wan was responsible for investment asset management for accredited clients and institutional investors, in particular, the emerging growth industries and managed investment fund portfolio of about US\$10 million for Asian clients on a discretionary basis. He was involved in several merger and acquisition, fund raising and initial public offering exercises. In 2000, Mr. Wan was the general manager and business development director of Beenz.com Greater China Limited covering the PRC, Taiwan, Korea and Hong Kong, Beenz.com is a company principally engaged in the business of digital currency, eMarketing and customer relationship management solutions provider with offices across the globe. Leveraged on his extensive experience in fund management and expertise in international banking and investing environment, the Board can be more readily respond to any changes in the international funding activities and the global investment direction. Since 2002, Mr. Wan has been the IT Business Director for Kenfair International (Holdings) Company Limited ("Kenfair"), a company whose securities are listed on the Stock Exchange, responsible for all major IT investments for kenfair. Mr. Wan is a brother of Mr. Joseph Wan, the controlling shareholder of Baron Capital.

#### **Independent Non-Executive Directors**

**Mr. Yan Mou Keung, Ronald**, aged 49, is an independent non-executive Director. He serves as the deputy managing director of San Dino Limited. He has more than 15 years of experience in running retail fashions. He is also the Hon Life President of Tsimshatsui Kai Fong Welfare Association, Vice President of HK Island/Northern District Scout Association, Hong Kong, President of Artiste Training Alumni Association, the President of Pragmatic Kwon-Do and the Chairman of Chung Hop Pai, Lau Kan Tung Chinese Martial Arts Association.

**Mr. Lok Shing Kwan, Sunny**, aged 38, is an independent non-executive Director. Mr. Lok has over 10 years of experience in finance, accounting, corporate and taxation affairs. He is an associate member of the Hong Kong Society of Accountants and a member of CPA Australia. Mr. Lok is a director of CSI Investment Management Limited and an independent non-executive director of Cosmopolitan International Holdings Limited and LeRoi Holdings Limited, both of which are listed on the Stock Exchange.

**CORPORATE INFORMATION****Registered office of the Company**

Century Yard  
Cricket Square  
Hutchins Drive  
P. O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

**Principal place of business in Hong Kong**

4/F, Aon China Building  
29 Queen's Road Central  
Central  
Hong Kong

**Company secretary**

TSUI Wing Tak, AHKSA, CPA (Aust.)

**Directors**

Wan Chuen Hing, Alexander  
Flat 1B, 1/F., Block 16  
Parc Oasis,  
Yau Yat Chuen,  
Kowloon,  
Hong Kong

Ng Hon Cheung, Sannio  
Flat F, 9/F, Block 9,  
South Horizons,  
Hong Kong

Lok Shing Kwan, Sunny  
Flat H, 7/F.,  
North Point Terrace,  
North Point,  
Hong Kong

	<p>Yan Mou Keung Apartment C, 4/F., Breezy Court, 2A Park Road, Hong Kong</p>
<b>Authorised representatives</b>	<p>WAN Chuen Hing, Alexander Flat 1B, 1/F., Block 16 Parc Oasis, Yau Yat Chuen, Kowloon, Hong Kong</p> <p>NG Hon Cheung, Sannio Flat F, 9/F, Block 9, South Horizons, Hong Kong</p>
<b>Legal advisers to the Company as to Hong Kong law</b>	<p>Boughton Peterson Yang Anderson 4009 Gloucester Tower The Landmark 11 Pedder Street Central Hong Kong</p>
<b>Auditors</b>	<p>Charles Chan, Ip &amp; Fung CPA Ltd 37/F, Hennessy Centre 500 Hennessy Road Causeway Bay Hong Kong</p>
<b>Share registrars in Hong Kong</b>	<p>Standard Registrars Limited Ground Floor, Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong</p>
<b>Principal bankers</b>	<p>Bank of America (Asia) Limited 12 Harcourt Road Central Hong Kong</p>

**EXPENSES**

The expenses in connection with the Open Offer, including financial advisory fee, underwriting commission, printing, registration, translation, legal and accounting charges are estimated to amount to approximately HK\$1.5 million and are payable by the Company.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the office of the Company at 4/F, Aon China Building, 29 Queen's Road Central, Central, Hong Kong, during normal business hours from the date of this circular up to and including the date of the EGM:

- (a) the memorandum of association and articles of association of the Company;
- (b) the annual reports of the Company for the period from 18 September 2001 to 31 December 2001 and for the year ended 31 December 2002; and
- (c) the material contract referred to in this appendix.

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## NOTICE OF EGM

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中 國 投 資

### CHINA INVESTMENT FUND COMPANY LIMITED

*(incorporated in the Cayman Islands with limited liability)*

**NOTICE IS HEREBY GIVEN** that a extraordinary general meeting (the “EGM”) of China Investment Fund Company Limited (the “Company”) will be held at 4/F., Aon China Building, 29 Queen’s Road Central, Central, Hong Kong on Thursday, 8 April 2004 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions respectively:

#### ORDINARY RESOLUTIONS

- (1) **“THAT** subject to and conditional upon, (i) the conditional underwriting agreement dated 26 February 2004 (the “Underwriting Agreement”) entered into, among other, between the Company and Baron Capital Limited (the “Underwriter”) becoming unconditional and not being terminated in accordance with its terms (a copy of which has been produced to the meeting marked “A” and signed by the chairman of the meeting for the purpose of identification); (ii) the obtaining of requisite approvals (if any) from, and the filing of a copy of the Open Offer Documents (as defined below) (where necessary) with, the relevant governmental, monetary or other regulatory body (as the case may be) in the Cayman Islands for the implementation of the Open Offer (as defined below) and the issue of the Offer Shares (as defined below); (iii) the filing with and registration of the Open Offer Documents together with all the documents required to be attached thereto by the Companies Ordinance (Cap. 32 of the laws of Hong Kong) (the “Companies Ordinance”) (all having been duly authorised for registration by The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and signed by or on behalf of two of the directors of the Company (the “Directors”)) by the Registrar of Companies in Hong Kong in compliance with the Companies Ordinance by no later than the date (the “Prospectus Posting Date”) of posting of a prospectus containing details of the Open Offer and the form of application for the Offer Shares enclosed therewith (together the “Open Offer Documents”) sent to the Qualifying Shareholders (as defined below) and (iv) the Listing Committee of the Stock Exchange granting or agreeing to grant, and not having revoked, the listings of, and permission to deal in, the Offer Shares either unconditionally or subject to conditions to which the Company accepts by not later than the Prospectus Posting Date (or such other date as may be agreed between the Company and the Underwriter)

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- (a) the issue by way of open offer (“Open Offer”) of 400,000,000 (“Offer Shares”) new shares of HK\$0.01 each in the share capital of the Company (“Shares”) at HK\$0.125 per Offer Share to the shareholders of the Company whose names appear on the register of members of the Company (other than those shareholders with registered addresses outside Hong Kong) (the “Qualifying Shareholders”) on 13 April 2004 (or such other date the Company and the Underwriter may agree to be the record date for the Open Offer) on the basis of five (5) Offer Shares for every one (1) Share held by the Qualifying Shareholders and otherwise pursuant to and in accordance with the terms and conditions set out in the circular dated 22 March 2004 despatched to the shareholders of the Company (a copy of which document has been produced to this meeting marked “B” and signed by the chairman of this meeting for the purpose of identification), be and is hereby approved;
  - (b) the Directors be and are hereby authorised to issue and allot the Offer Shares pursuant to or in connection with the Open Offer notwithstanding that the same may be offered, allotted or issued otherwise than pro rata to the existing shareholders of the Company and, in particular, the Directors be and are hereby authorized to make such exclusions or other arrangements in relation to fractional entitlements (if any) and overseas shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of, or the likely expenses and delay that may be incurred in determining the extent of any restrictions, obligations or requirement of any recognized regulatory body or any stock exchange in, any territory applicable to the Company;
  - (c) the Underwriting Agreement and the transactions contemplated thereunder be and the same are hereby approved, confirmed and ratified; and
  - (d) the Directors be and are hereby authorised to sign and execute such documents and to do all such acts and things incidental to the Open Offer or as they consider necessary or expedient in connection with the implementation of or giving effect to the Open Offer, the Underwriting Agreement and the transactions contemplated thereunder, including the satisfaction or fulfillment of any conditions to which the Underwriting Agreement is subject (subject to such variations which the Directors may consider necessary, desirable and in the best interests of the Company and the shareholders of the Company as a whole).”
- (2) **“THAT**
- (a) the general mandates granted to the Directors to exercise the powers of the Company to allot shares of the Company at the annual general meeting of the Company held on



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- 30 April 2003 be revoked (but without prejudice to any exercise of such mandates prior to the date on which this resolution becomes effective);
- (b) subject to paragraph (c) below, the Directors be hereby generally and unconditionally authorised to exercise during the Relevant Period (as defined below) all the powers of the Company to issue, allot and deal with additional shares of the Company and to make or grant offers, agreements and options (including warrants, bonds and debentures, notes and any securities which carry rights to subscribe for or are convertible into ordinary shares of the Company) which would or might require the exercise of any of such powers during or after the end of the Relevant Period (as defined below);
  - (c) the aggregate nominal amount of the shares allotted, issued or otherwise dealt with or agreed conditionally or unconditionally to be allotted, issued or otherwise dealt with (whether pursuant to an option or otherwise) by the Directors pursuant to the approval in sub-paragraph (b) of this resolution, other than pursuant to (i) a Rights Issue (as defined below); or (ii) the exercise of the rights of subscription or conversion under the terms of any warrants of the Company or any securities which are convertible into shares of the Company; or (iii) any script dividend or similar arrangement providing for allotment of shares of the Company in lieu of the whole as part of a dividend on shares in accordance with the articles of association of the Company; or (iv) the exercise of any options granted under any option scheme or similar arrangements for the time being adopted for the grant or issue to officers and/or employees of the Company and/or of its subsidiaries, of options to subscribe for, or rights to acquire, shares of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution; and
  - (d) for the purpose of next resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
    - (i) conclusion of the next annual general meeting of the Company;
    - (ii) revocation or variation of the authority given under this resolution by ordinary resolution passed by the Company’s shareholders in general meeting of the Company;
    - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held;

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“Rights Issue” means an offer of shares open for a fixed period by the Directors to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong).”

(3) **“THAT**

- (a) the general mandates granted to the Directors to exercise the powers of the Company to purchase shares of the Company at the annual general meeting of the Company held on 30 April 2003 be revoked (but without prejudice to any exercise of such mandates prior to the date on which this resolution becomes effective);
- (b) the Directors be generally and unconditionally authorized to exercise during the Relevant Period (as defined below) all the powers of the Company to purchase its shares, subject to and in accordance with the applicable laws;
- (c) the aggregate nominal amount of shares which may be purchased by the Company pursuant to the approval in sub-paragraph (b) of this resolution shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution;
- (d) for the purpose of this resolution, “Relevant Period” means the period from the passing of this resolution until whichever is the earliest of:
  - (i) the conclusion of the next annual general meeting of the Company;
  - (ii) the revocation or variation of the authority given under this resolution by ordinary resolution passed by the Company’s shareholders in general meeting of the Company;
  - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held.”

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- (4) “**THAT** conditional upon the ordinary resolutions No. 2 and No. 3 set out in the notice of the EGM (the “Notice”) of which this resolution forms part being approved, the aggregate nominal amount of the share capital of the Company which are repurchased by the Company pursuant to and in accordance with ordinary resolution No. 3 set out in the Notice shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted or agreed unconditionally or unconditionally to be allotted by the Directors pursuant to and in accordance with ordinary resolution No. 2 set out in the Notice.”
- (5) “**THAT**
- (a) the restriction numbered 4. as set out in the paragraph headed “Investment Restrictions” in the section headed “Information on the Company” in the prospectus of the Company dated 18 December 2001 (the “Listing Prospectus”) to the effect that the Company will not invest more than 20% of its assets outside the PRC and Hong Kong (the “Limit”) be and the same is hereby altered and amended for the purpose of increasing the Limit to not more than 40% and that the Company be and it is hereby authorised to invest not more than 40% of its assets outside the PRC and Hong Kong; and
- (b) the investment objectives and policies of the Company as set out in the paragraph headed “Investment Objectives and Policies” in the section headed “Information on the Company” in the Listing Prospectus be and the same are hereby amended and modified in accordance with and subject to sub-paragraph (a) of this resolution.”

*Notes:*

1. A member of the Company entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint another person as his proxy to attend and vote in his stead. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at the Extraordinary General Meeting. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be deposited at the share registrars of the Company in Hong Kong, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wan Chai, Hong Kong together with the power or attorney or other authority (if any) under which it is signed or certified copy of such power of attorney or authority, not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof.
3. Where there are joint holders of any share, any one of such persons may vote at the Extraordinary General Meeting either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Extraordinary General Meeting personally or by proxy, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of such joint holding.

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4. A form of proxy for use in connection with the Extraordinary General Meeting is enclosed.
5. Baron Capical Limited, Capital Builder Limited and their respective associates will abstain from voting in respect of ordinary resolution No. 2.