

Appendix – Explanatory Statement to Repurchase Shares

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General Mandate to Repurchase Shares

This Explanatory Statement, required to be sent to shareholders under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) in connection with the proposed general mandate for repurchase of shares to be granted to the Directors, contains all the information reasonably necessary to enable shareholders to make an informed decision on whether to vote for or against the relevant resolutions set out in the Notice of the Annual General Meeting dated 4th July 2003 (the “Notice”).

(a) Exercise of the repurchase mandate

Resolution no. 6(ii) set out in the Notice will, if passed, give a general unconditional mandate to the Directors authorising the repurchase by the Company of up to 10% of the fully paid shares of HK\$1 each in the capital of the Company (“Share”) in issue at the date of the Annual General Meeting to be held on 8th August 2003 at 12:00 noon, at any time until the end of the Relevant Period as defined in Resolution no. 6(ii)(c) set out in the Notice.

Accordingly, exercise in full of the repurchase mandate (on the basis of 135,000,000 shares in issue as at 11th July 2003, being the latest practicable date prior to the printing of this Appendix and assuming no Shares are issued or repurchased prior to the date of the Annual General Meeting) would result in up to 13,500,000 Shares being repurchased by the Company during the Relevant Period.

(b) Reasons for repurchases

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

(c) Funding of repurchases

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the laws of Hong Kong and the Memorandum and Articles of Association of the Company.

If the repurchase mandate were exercised in full, there could be a material adverse impact on the working capital or gearing position of the Company and its subsidiaries (the “Group”) (as compared with the position disclosed in the audited consolidated financial statements as at 31st March 2003). The Directors therefore do not propose to exercise the repurchase mandate to such an extent unless the Directors determined that such repurchases were, taking account of all relevant factors, in the best interests of the Group.

(d) Directors, their associates and connected persons

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries under the repurchase mandate if such repurchase mandate is granted by shareholders.

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 laws of Hong Kong.

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(d) Directors, their associates and connected persons (cont'd)

If as a result of a share repurchase by the Company, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder, or a group of shareholders acting in concert, could, depending upon the level of increase in shareholding interest(s), obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Mr. Lu Sin (controlling 49.29%, before any share repurchase, and 54.77% after the full exercise of the general mandate) and Eaver Company Limited (beneficially owning 1.49%, before any share repurchase, and 1.65% after the full exercise of the general mandate) and parties acting in concert with them have already been controlling more than 50%, in aggregate, of the voting rights of the Company. The Directors are not aware of any consequences which may arise under the Takeovers Code as a result of any repurchases made under the repurchase mandate.

No other 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 by shareholders.

(e) Share prices

The Company has not repurchased any of the Shares (whether on the Stock Exchange or otherwise) in the six months preceding this Annual Report. The highest and lowest prices at which Shares of the Company have been traded on the Stock Exchange during each of the previous twelve months were as follows:–

	Highest HK\$	Lowest HK\$
2002		
July	—*	—*
August	—*	—*
September	—*	—*
October	3.400	3.400
November	3.400	3.350
December	—*	—*
2003		
January	3.275	3.100
February	3.200	3.200
March	3.000	3.000
April	2.000	2.000
May	1.960	1.910
June	2.200	1.950

* There was no transaction during the month.

Recommendation

The Directors consider that the proposed granting of the general mandates to the Directors to repurchase shares are in the best interests of the Company and the Shareholders. The Directors therefore recommend the Shareholders to vote in favour of the relevant resolutions.

By Order of the Board
Safety Godown Company, Limited
Lu Sin
Chairman

Hong Kong, 4 July 2003