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**If you have sold or transferred** all your shares in Lam Soon (Hong Kong) Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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## **LAM SOON (HONG KONG) LIMITED**

*(Incorporated in Hong Kong with limited liability)*

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

**Proposed privatisation of Lam Soon Food Industries Limited by  
Lam Soon (Hong Kong) Limited by way of a scheme of arrangement under  
Section 99 of the Companies Act 1981 of Bermuda**

**Financial adviser to Lam Soon (Hong Kong) Limited**



**Independent financial adviser to the independent board committee of  
Lam Soon (Hong Kong) Limited**

**MANAGEMENT CAPITAL LIMITED**

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A letter from the Chairman of Lam Soon (Hong Kong) Limited is set out on pages 4 to 10 of this circular. A letter from the Independent Board Committee (as defined herein) containing its advice in connection with the Proposal (as defined herein) is set out on page 11 of this circular. A letter from Management Capital Limited containing its advice to the Independent Board Committee in relation to the Proposal is set out on pages 12 to 18 of this circular.

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## DEFINITIONS

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

“Announcement”	the announcement dated 4 April 2002 issued jointly by the Board and the board of directors of LSF containing, <i>inter alia</i> , details of the Proposal and the Scheme
“Associate(s)”	the meaning ascribed thereto under the Listing Rules
“Authorisation(s)”	all the authorisation(s), registration(s), filing(s), ruling(s), consent(s), permission(s) and approval(s) necessary to effect the Proposal
“Board”	board of Directors
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	Lam Soon (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability
“Court Meeting”	a meeting of the Scheme Shareholders convened at the direction of the Supreme Court at which the Scheme will be voted upon
“Director(s)”	director(s) of the Company
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate thereof
“Group”	the Company and its subsidiaries
“Guoinvest”	Guoinvest International Limited, the ultimate controlling Shareholder which owned approximately 38.9 per cent. of the issued share capital of the Company as at the Latest Practicable Date
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China
“Independent Board Committee”	the independent board committee of the Company comprising Mr NG Ping Kin, Peter which has been established in connection with the Proposal
“Interested Director(s)”	Messrs. WHANG Tar Choung, TSAO Chen, James, WHANG Sun Tze, LO Kwong Chi, Clement and HO King Cheung and their Associates, who are directors of both the Company and LSF and were interested in both the Shares and the LSF Shares as at the Latest Practicable Date
“Latest Practicable Date”	2 May 2002, being the latest practicable date prior to the issue of this circular for ascertaining certain information contained herein
“LSF”	Lam Soon Food Industries Limited, a company incorporated in Bermuda with limited liability
“LSF Convertible Preference Share(s)”	the 5 per cent. non-cumulative convertible preference share(s) of LSF

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## DEFINITIONS

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“LSF Group”	LSF and its subsidiaries
“LSF Independent Shareholder(s)”	LSF Shareholder(s) other than the Company and Messrs. WHANG Tar Choung, TSAO Chen, James, WHANG Sun Tze, LO Kwong Chi, Clement and HO King Cheung and parties acting in concert with any of them, together with their Associates
“LSF Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of LSF
“LSF Shareholder(s)”	registered holder(s) of LSF Shares
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“MCL”	Management Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Board Committee in connection with the Proposal
“Price”	the price of HK\$2.90 per Scheme Share payable to the Scheme Shareholders under the Scheme
“Proposal”	the proposal for the privatisation of LSF by the Company by way of the Scheme
“Relevant Authorities”	appropriate government(s) and/or governmental bodies, regulatory bodies, court(s) or institution(s)
“Rothschild”	N M Rothschild & Sons (Hong Kong) Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and financial adviser to the Company in relation to the Proposal
“Scheme”	A scheme of arrangement under section 99 of the Companies Act involving the cancellation of all Scheme Shares
“Scheme Document”	a composite document dated 6 May 2002 in relation to the Proposal to be sent to LSF Shareholders, which is annexed to and is to be construed as part of this circular
“Scheme Share(s)”	LSF Share(s) held by Scheme Shareholder(s)
“Scheme Shareholder(s)”	LSF Shareholder(s) other than the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supreme Court”	Supreme Court of Bermuda
“Shareholder(s)”	registered holder(s) of Shares
“Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of the Company
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong

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## EXPECTED TIMETABLE

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2002

Court Meeting . . . . .	10:00 a.m. on Wednesday, 29 May
Special general meeting of LSF . . . . .	10:30 a.m. on Wednesday, 29 May
Court hearing of the petition to sanction the Scheme ( <i>Note 1</i> ) . . . . .	Friday, 7 June
Last day of dealing in LSF Shares . . . . .	Wednesday, 12 June
Record date . . . . .	Wednesday, 19 June
Effective date on which the Scheme becomes effective ( <i>Note 2</i> ) . . . . .	Thursday, 20 June
Withdrawal of the listing of the LSF Shares on the Stock Exchange ( <i>Note 2</i> ) . . . . .	9:30 a.m. on Friday, 21 June

*Notes:*

- All references in this circular to times and dates are references to Hong Kong times and dates, other than references to the expected date for the Supreme Court hearing of the petition to sanction the Scheme and the effective date of the Scheme (see Note 2 below), which are to the relevant dates in Bermuda.*
- The Scheme will become effective when it is sanctioned (with or without modification(s)) by the Supreme Court and a copy of the Supreme Court order is delivered to the Registrar of Companies in Bermuda for registration and is registered. Registration is expected to take place on Thursday, 20 June 2002 (Bermuda time), which is equivalent to Friday, 21 June 2002 (Hong Kong time). It is expected that the listing of the LSF Shares on the Stock Exchange will be withdrawn at 9:30 a.m. on Friday, 21 June 2002.*



## LAM SOON (HONG KONG) LIMITED

*(Incorporated in Hong Kong with limited liability)*

*Directors*

WHANG Tar Choung, *Chairman*  
NG Ping Kin, Peter, *Vice Chairman\**  
TSAO Chen, James, *Group Managing Director*  
WHANG Sun Tze  
LO Kwong Chi, Clement\*  
KWEK Leng Hai  
TAN Lim Heng  
ENG, James Jr.  
TSANG Cho Tai\*  
HO King Cheung  
YONG Weng Chye (*alternate Director to WHANG Tar Choung*)

*Registered office*

21 Dai Fu Street  
Tai Po Industrial Estate  
Tai Po  
New Territories  
Hong Kong

\* *Independent Non-Executive Director*

6 May 2002

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE AND CONNECTED TRANSACTION**

#### **Proposed privatisation of Lam Soon Food Industries Limited by Lam Soon (Hong Kong) Limited by way of a scheme of arrangement under Section 99 of the Companies Act 1981 of Bermuda**

#### **INTRODUCTION**

It was announced on 4 April 2002 that the Company had requested LSF to put forward the Proposal to the Scheme Shareholders. The Company proposes that all Scheme Shares will be cancelled in exchange for HK\$2.90 in cash for each Scheme Share.

As at the Latest Practicable Date, the Scheme Shareholders were interested in 44,675,886 LSF Shares, representing approximately 34.9 per cent. of the issued share capital of LSF. Upon the approval of the Scheme by the LSF Independent Shareholders at the Court Meeting, the passing of the special resolution to implement and give effect to the Proposal at the special general meeting of LSF by the LSF Shareholders and the sanction of the Scheme by the Supreme Court, LSF will apply to the Stock Exchange for the withdrawal of the listing of the LSF Shares on the Stock Exchange. LSF will become a wholly-owned subsidiary of the Company immediately upon the Scheme becoming effective. In the event that the Proposal is not approved or lapses, LSF will maintain the listing of the LSF Shares on the Stock Exchange.

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## LETTER FROM THE CHAIRMAN

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In addition, as at the Latest Practicable Date, LSF has granted options in favour of its employees to subscribe for up to 178,909 LSF Shares with exercise prices ranging between HK\$14.66 and HK\$22.38 per LSF Share and with an expiry period between 7 November 2003 and 7 May 2005. Under the terms of the Share Option Scheme adopted by LSF and as a result of the Proposal, all options to subscribe for LSF Shares will conditionally lapse, subject to the Scheme becoming effective. If the Scheme does not become effective, such options would be exercisable again. The Company has offered, conditional upon the Scheme becoming effective, to pay a cash amount of HK\$0.10 for each LSF Share subject to options renounced.

Furthermore, LSF had 500,000,000 LSF Convertible Preference Shares outstanding as at the Latest Practicable Date which can be converted into 43,425,000 LSF Shares at approximately HK\$8.52 per LSF Share. The Company is the beneficial owner of all the LSF Convertible Preference Shares which are convertible at its sole option. LSF will be entitled to redeem all or any of the LSF Convertible Preference Shares after 11 July 2002. Since all these LSF Convertible Preference Shares are held by the Company, no offer will be extended in respect of the LSF Convertible Preference Shares and they will not be subject to the Scheme.

The Proposal constitutes a discloseable transaction for the Company pursuant to Rule 14.12 of the Listing Rules. The Interested Directors, together with their Associates were interested in an aggregate of 4,009,658 LSF Shares (representing approximately 3.1 per cent. of the issued share capital of LSF) as at the Latest Practicable Date. As the Proposal involves the Company agreeing under the terms of the Proposal to pay the Price to the Interested Directors in consideration of the cancellation by LSF of the Scheme Shares in which these Directors are interested, the Proposal will constitute a connected transaction for the Company pursuant to Rule 14.23(1)(a) of the Listing Rules. The total consideration to be paid by the Company to the Interested Directors under the Proposal will be approximately HK\$11.6 million (based on the Price of HK\$2.90 per Scheme Share), representing approximately 1.5 per cent. of the audited consolidated net tangible assets of the Group as at 31 December 2001. Accordingly, the Proposal will only be subject to the disclosure requirements under Rule 14.25(1) of the Listing Rules and no approval by Shareholders will be required under the Listing Rules.

In view of the interests of the Interested Directors in the LSF Shares referred to above which create a conflict of interest for the Interested Directors in relation to the Proposal under Rule 2.4 of the Takeovers Code, the Independent Board Committee has, in accordance with Rule 2.4 of the Takeovers Code, obtained advice from MCL which has opined that the Proposal is in the interest of the Shareholders. Rule 2.4 of the Takeovers Code also requires that the Proposal be put to the vote of the Shareholders where the Interested Directors and their Associates (who together owned approximately 24.8 per cent. of the voting rights of the Company as at the Latest Practicable Date) are required to abstain from voting. Guoinvest, the ultimate controlling Shareholder, which owned approximately 38.9 per cent. of the issued share capital of the Company, is entitled to vote. Given that the interest of Guoinvest represents over 50 per cent. of the independent voting rights of the Company regarding the Proposal and that it has confirmed to the Executive that it will vote in favour of the Proposal, no Shareholders' meeting will be held for the approval of the Proposal under the Takeovers Code.

The purpose of this circular is to provide you with further details of the Proposal.

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## LETTER FROM THE CHAIRMAN

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### TERMS OF THE PROPOSAL

The Scheme will provide that the Scheme Shares be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive the Price, being HK\$2.90 in cash, from the Company for every Scheme Share held.

The Price represents:

- **a premium of approximately 2.7 per cent.** over the closing price of HK\$2.825 per LSF Share as quoted on the Stock Exchange on the Latest Practicable Date;
- **a premium of approximately 31.8 per cent.** over the closing price of HK\$2.200 per LSF Share as quoted on the Stock Exchange on 28 March 2002 (being the last trading day prior to the suspension of trading in the LSF Shares from 9:30 a.m. on 2 April 2002, pending the issue of the Announcement);
- **a premium of approximately 30.6 per cent.** over the average closing price of approximately HK\$2.220 per LSF Share based on the daily closing prices as quoted on the Stock Exchange over the five trading days up to and including 28 March 2002;
- **a premium of approximately 30.6 per cent.** over the average closing price of approximately HK\$2.220 per LSF Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including 28 March 2002;
- **a premium of approximately 33.5 per cent.** over the average closing price of approximately HK\$2.173 per LSF Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including 28 March 2002;
- **a premium of approximately 51.0 per cent.** over the average closing price of approximately HK\$1.920 per LSF Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including 28 March 2002;
- **a discount of approximately 51.8 per cent.** to the audited consolidated net tangible asset value per LSF Share of approximately HK\$6.02 as at 31 December 2001 (which was computed based on the audited net tangible assets of the LSF Group of approximately HK\$794.4 million less share capital of HK\$25 million of the LSF Convertible Preference Shares, and divided by the total number of 127,904,201 LSF Shares in issue as at the Latest Practicable Date);
- **a discount of approximately 37.5 per cent.** to the adjusted consolidated net tangible asset value per LSF Share of approximately HK\$4.64, assuming full conversion of the LSF Convertible Preference Shares (which was computed based on the audited net tangible assets of the LSF Group as set out above and divided by the total number of LSF Shares in issue, assuming full conversion of the LSF Convertible Preference Shares);
- **a discount of approximately 52.5 per cent.** to the proforma net tangible asset value per LSF Share of approximately HK\$6.11 which was computed after adjusted for the surplus arising from the valuation of the properties, property interests and plants of the LSF Group as at 31 March 2002; and



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## LETTER FROM THE CHAIRMAN

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- **a discount of approximately 38.3 per cent.** to the adjusted proforma net tangible asset value per LSF Share of approximately HK\$4.70 which was computed after adjusted for the surplus arising from the valuation of the properties, property interests and plants of the LSF Group as at 31 March 2002 and assuming full conversion of the Convertible Preference Shares.

In determining the Price, the Directors have taken into account factors such as the trading liquidity and average market prices of the LSF Shares, as well as the factors further discussed in the section headed “Reasons for and Benefits of the Proposal” below.

As at the Latest Practicable Date, there were 127,904,201 LSF Shares in issue and the Scheme Shareholders were interested in 44,675,886 LSF Shares, representing approximately 34.9 per cent. of the issued capital of LSF. At the Price of HK\$2.90, the Proposal values the entire issued capital of LSF at approximately HK\$370.9 million. The maximum amount of cash required in order to effect the Proposal is approximately HK\$130.1 million (assuming that all the outstanding share options of LSF are exercised), which will be funded out of the internal resources of the Company reserved for the purpose of the Proposal. Rothschild, the financial adviser to the Company in connection with the Proposal, is satisfied that sufficient financial resources are available to the Company for the implementation of the Proposal.

### CONDITIONS OF THE PROPOSAL

The Scheme will become effective and binding on LSF and all LSF Shareholders, subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme by a majority in number representing not less than three-fourths in value of the LSF Independent Shareholders at the Court Meeting, provided that:
  - (i) the Scheme is approved by at least 75 per cent. of the votes attaching to those LSF Shares that are voted either in person or by proxy at the Court Meeting; and
  - (ii) the number of votes cast against the resolution to approve the Scheme at the Court Meeting is not more than 10 per cent. of the votes attaching to all of the LSF Shares held by the LSF Independent Shareholders;
- (b) the passing of a special resolution to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the share capital of LSF);
- (c) the sanction of the Scheme (with or without modification(s)) by the Supreme Court and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Supreme Court for registration;
- (d) compliance with the procedural requirements of Section 46 of the Companies Act in relation to the reduction of the issued share capital of LSF;
- (e) all Authorisations in connection with the Proposal having been obtained or made from, with or by (as the case may be) the Relevant Authorities, in Bermuda and/or Hong Kong and/or any other relevant jurisdictions;
- (f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations

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## LETTER FROM THE CHAIRMAN

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or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective; and

- (g) all necessary consents which may be required under any existing contractual obligations of LSF being obtained.

### REASONS FOR AND BENEFITS OF THE PROPOSAL

The continued difficult operating environment and uncertain economic outlook in the region caused the LSF Group to report an audited net loss attributable to its shareholders of approximately HK\$369.1 million for the financial year ended 31 December 2001. This included a provision of approximately HK\$370.1 million in respect of an impairment to the carrying value of its packaging business and other assets. These results follow losses made in each of the preceding two years. LSF has paid no dividends to its shareholders in the last six years. Whilst the Directors believe that the entry of China to the World Trade Organisation offers long-term growth prospects in the food and agricultural industries, it will also increase the level of competition in the market. Additionally, the Directors believe the prospects of LSF's packaging business will continue to be challenging.

The Directors are of the view that LSF's business will, after the Scheme becomes effective, be able to operate more effectively and efficiently without additional complexity and the cost of LSF being a stand-alone listed company, and be better suited to take on the challenge of the post World Trade Organisation era as well as to take advantage of the new opportunities ahead. As a wholly-owned subsidiary of the Company, it will be possible to manage LSF in a more integrated manner, with greater flexibility to streamline resources and consolidate operations with those of the Company. The Directors believe that the Proposal will allow the LSF Group to achieve greater efficiency and enhance its competitiveness in this highly challenging market environment.

The investment community has had a low level of interest in LSF which is reflected by the low level of trading volume in the LSF Shares. The average daily trading volume of the LSF Shares in the past 180 trading days up to and including 28 March 2002 has been less than 50,000 LSF Shares. During the same period, the LSF Shares have been consistently traded at prices which the Directors believe do not reflect the value of LSF. The average daily trading volume of the LSF Shares in the past 180 trading days up to and including the Latest Practicable Date is approximately 80,000 LSF Shares.

LSF has not raised any funds from the equity capital markets after 1997 and LSF has no intention to raise any new funds from the equity capital markets in the foreseeable future given the valuation accorded to LSF and the low liquidity of the LSF Shares. Consequently, having considered all the above factors, the Directors are of the view that the costs associated with the maintenance of the listing of the LSF Shares on the Stock Exchange and LSF's publicly listed status are no longer warranted.

Since approximately 65.1 per cent. of LSF was already owned by the Company as at the Latest Practicable Date, the Directors believe that it is unlikely that minority LSF Shareholders will receive any other offer to acquire the LSF Shares from a third party without the approval of the Company. In addition, LSF Shareholders should note that no discussions have taken place (or are taking place) with any third party regarding the disposal of any of the LSF Shares held by the Company and the Company has no intention of discontinuing LSF's businesses.

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## LETTER FROM THE CHAIRMAN

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Having considered all the above factors, the Directors believe that the Proposal represents an opportunity for all the minority LSF Shareholders to realise their entire investment at a cash price substantially above the levels at which the LSF Shares have consistently been traded in the past four years and which is also significantly in excess of any price they might obtain under current market conditions if the Proposal does not take place.

### INFORMATION ON THE GROUP

The Company is an investment holding company incorporated in Hong Kong with limited liability and its shares are listed on the Stock Exchange. Its subsidiaries are principally engaged in the manufacturing and trading of food products such as flour products, edible oils and frozen food, as well as detergent and packaging products. The Company's ultimate controlling shareholder is Guinvest which owned approximately 38.9 per cent. of the issued share capital of the Company as at the Latest Practicable Date.

### INFORMATION ON THE LSF GROUP

LSF is an investment holding company incorporated in Bermuda with limited liability and its shares have been listed on the Stock Exchange since July 1991. Its subsidiaries are principally engaged in the manufacturing and trading of food products such as flour products, edible oils and frozen food, as well as detergent and packaging products. The summary of the audited consolidated income statement of the LSF Group for the two financial years ended 31 December 2001 extracted from the published annual report of LSF for the financial year ended 31 December 2001 is set out below:

	<b>Year ended</b> <b>31 December 2001</b> <i>HK\$' million</i>	<b>Year ended</b> <b>31 December 2000</b> <i>HK\$' million</i>
Turnover	1,596.0	1,565.8
Operating loss	375.3	74.1
Loss from ordinary activities before taxation	369.6	70.8
Loss after taxation (but before minority interests)	376.9	78.1
Loss attributable to LSF Shareholders	369.1	69.7

As at 31 December 2001, the audited consolidated net tangible assets of the LSF Group were approximately HK\$794.4 million.

### EFFECTS OF THE PROPOSAL

#### (a) Earnings

The Company does not expect any immediate material impact on earnings as a result of the Proposal, after taking into account the elimination of minority interest in LSF and the cost of maintaining the listing of LSF which will no longer be required, as well as the cost associated with the Proposal.

#### (b) Net assets

The audited net asset value and net tangible asset value of the Group were approximately HK\$792.0 million and HK\$766.2 million as at 31 December 2001 respectively. Upon completion of the Proposal, and on a proforma basis, the net asset value of the Group would remain unchanged whilst its net tangible asset value would increase to approximately HK\$803.6 million.

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## LETTER FROM THE CHAIRMAN

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### (c) Gearing

The Group's gearing ratio was approximately 13.9 per cent. as at 31 December 2001. Upon completion of the Proposal, and on a proforma basis, the Group's gearing ratio would increase to approximately 30.4 per cent..

### RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on page 11 of this circular which contains its recommendation in connection with the Proposal, and the letter from MCL set out on pages 12 to 18 of this circular which contains its advice to the Independent Board Committee in connection with the Proposal.

The Independent Board Committee, having taken into account the advice from MCL, considers that the Proposal is in the interest of the Shareholders.

### FURTHER INFORMATION

Your attention is drawn to the further information set out in the appendix to this circular.

Yours faithfully,  
**WHANG Tar Choung**  
*Chairman*



**LAM SOON (HONG KONG) LIMITED**

*(Incorporated in the Hong Kong with limited liability)*

6 May 2002

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION**

**Proposed privatisation of Lam Soon Food Industries Limited by  
Lam Soon (Hong Kong) Limited by way of a scheme of arrangement under  
Section 99 of the Companies Act 1981 of Bermuda**

It was announced on 4 April 2002 that the Company had requested LSF to put forward the Proposal to the Scheme Shareholders, details of which are set out in the section headed “Letter from the Chairman” as set out on pages 4 to 10 of a circular of the Company dated 6 May 2002 (the “Circular”), of which this letter forms part. I have been appointed to advise you as to whether the Proposal is in the interest of the Shareholders. Management Capital Limited has been appointed as the independent financial adviser to advise me in connection with the Proposal.

Having taken into account the opinion of Management Capital Limited and, in particular, the factors, reasons and recommendation as set out in its letter from 12 to 18 of the Circular, I consider that the Proposal to be in the interest of the Shareholders.

Yours faithfully,  
**NG Ping Kin, Peter**  
*Independent Board Committee of  
Lam Soon (Hong Kong) Limited*

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# LETTER FROM MANAGEMENT CAPITAL LIMITED

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*The following is the full text of the letter from MCL dated 6 May 2002 setting out their advice to the Independent Board Committee.*

## MANAGEMENT CAPITAL LIMITED

19th Floor  
St. George's Building  
2 Ice House Street  
Central, Hong Kong

6 May 2002

The Independent Board Committee  
Lam Soon (Hong Kong) Limited  
21 Dai Fu Street  
Tai Po Industrial Estate  
Tai Po  
New Territories  
Hong Kong

Dear Sirs,

### DISCLOSEABLE AND CONNECTED TRANSACTION

#### **Proposed Privatisation of Lam Soon Food Industries Limited by Lam Soon (Hong Kong) Limited by way of a Scheme of Arrangement under Section 99 of the Companies Act 1981 of Bermuda**

We refer to our appointment as the independent financial adviser to the Independent Board Committee in respect of the discloseable and connected transaction (the "Proposal"), details of which are contained in the Announcement and the Shareholders' circular issued by the Company dated 6 May 2002, of which this letter forms part.

Management Capital Limited is independent from and not connected with any of the Company, LSF, which is a 65.1 per cent. owned subsidiary of the Company, and their respective associates or parties acting in concert with any of them and is accordingly considered suitable to give independent advice.

Expressions used in this letter have the same meanings as defined in this Circular unless the context otherwise requires.

Messrs. WHANG Tar Choung, TSAO Chen, James, WHANG Sun Tze, LO Kwong Chi, Clement and HO King Cheung, who are Directors and also directors of LSF, together with their Associates, were interested in an aggregate of 4,009,658 LSF Shares, representing approximately 3.1 per cent. of the issued share capital of LSF as at the Latest Practicable Date. As the Proposal involves the Company agreeing under the terms of the Proposal to pay the Price to the aforementioned Directors in consideration of the cancellation by LSF of the Scheme Shares in which these Directors are interested, the Proposal will constitute a connected transaction for the Company pursuant to Rule 14.23(1)(a) of the Listing Rules. The total consideration to be paid by the Company to the aforesaid Directors under the Proposal will be approximately HK\$11.6 million (based on the Price of HK\$2.90 per Scheme Share), representing approximately 1.5 per cent. of the audited net tangible assets of the Group as at 31 December 2001. Accordingly, the Proposal will be subject to the disclosure requirements under Rule 14.25(1) of the Listing Rules but no approval by Shareholders will be required thereunder.

As each of the aforementioned Directors has an interest in the Shares, there is a conflict of interest for those Directors in relation to the Proposal. In accordance with Rule 2.4 of the Takeovers Code, the Independent Board Committee of the Company had obtained advice from Management Capital Limited prior to the Announcement to confirm that the Proposal is in the interests of the Shareholders and our formal advice is set out herein. Rule 2.4 of the Takeovers Code also requires that the Proposal be put to a shareholders' vote by Shareholders and the Directors referred to above and their Associates (who together hold approximately 24.8 per cent. of the voting rights of the Company) will be required to abstain from voting. As Guoinvest, the ultimate controlling Shareholder whose holding of approximately 38.9 per cent. of the issued share capital of the Company as at the Latest Practicable Date represents over 50 per cent. of the independent voting rights of the Company permitted to vote on the Proposal, has confirmed to the Executive that it will vote in favour of the Proposal, no Shareholders' meeting will be held to seek approval for the Proposal under the Takeovers Code.

In formulating our recommendation, we have relied on the information and facts supplied, and the opinions expressed by the Company. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed. We consider that we have been provided with sufficient information for us to reach an informed view, and have no reason to doubt the truth or accuracy of the information provided. We have assumed that all information and representations made or referred to in the Circular to be true. We have not however conducted an independent investigation into the financial position and affairs of the Company and its subsidiaries.

### PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion, we have considered the following principal factors and reasons:

#### (a) Background to and reasons for the Proposal

The Board has put forward the proposition that the Proposal may be rationalised on the basis that:

- With the continued difficult operating environment and uncertain economic outlook in the region, LSF has reported losses in the three financial years ended 31 December 2001 with the latest year's loss attributable to shareholders amounting to approximately HK\$369.1 million. LSF has also not paid any dividends to LSF Shareholders in the last six years. The Board is of the view that LSF's business will, after the Scheme becomes effective, be able to operate more effectively and efficiently without additional complexity and the cost of LSF being a stand-alone listed company, and be better suited to take on the challenge of the post World Trade Organisation era as well as to take advantage of the new opportunities ahead. With LSF as a wholly-owned subsidiary of the Company, it will be possible to manage LSF in a more integrated manner, with greater flexibility to streamline resources and consolidate operations with those of the Company. The Directors believe that the Proposal will allow the LSF Group to achieve greater efficiency and enhance its competitiveness in this highly challenging market environment. It is acceptable, in our view, that there is no particular need to maintain two listed companies as the main business of the Company is essentially the holding of shares in LSF following the disposal of its interests in M.C. Packaging (Hong Kong) Limited, Pacific Techvest PCB Limited and CL International Group.
- The "flexibility to streamline resources and consolidate operations" argument is equally valid in respect of the Company's holding of 500 million LSF Convertible Preference Shares as (i) the Company has not received any dividend since their issue as no dividend has been declared on the LSF Shares in the last six financial years, (ii) although the

redemption of the LSF Convertible Preference Shares is permitted from the fifth anniversary of the date of issue i.e. from 11 July, 2002, this is at the option of LSF's board of directors and, in any event, it will pose a significant burden on LSF given its current financial position, and (iii) the Company has no incentive to convert the LSF Convertible Preference Shares given the high conversion price of approximately HK\$8.52 per LSF Share in view of the current market price of LSF. As such, the privatisation will give the Company the flexibility it needs to restructure LSF to make efficient use of its resources.

- The investment community has had a low level of interest in LSF that in turn has led to the low volume of trading in LSF Shares. The average daily trading volume of LSF Shares in the 180 trading days up to and including 28 March 2002 (when the LSF Shares were suspended pending the Announcement) has been less than 50,000 LSF Shares. During the same period, the LSF Shares have been consistently traded at prices that, in the opinion of the Directors, do not reflect the value of LSF Group. LSF has not raised any funds from the equity capital markets after 1997 and LSF has no intention to raise any new funds from the equity capital markets in the foreseeable future given the valuation accorded to LSF and the low liquidity of the LSF Shares. Consequently, having considered all the above factors, we agree with the Directors that the costs associated with maintaining the listing of LSF Shares on the Stock Exchange and LSF's publicly listed status are no longer warranted.
- No discussion had taken place or are taking place with any third party regarding the disposal of any of the LSF Shares held by the Company and the Company has no intention of discontinuing LSF Group's businesses. Since the Company already owns approximately 65.1 per cent. of LSF as at the Latest Practicable Date, the Directors believe that it is unlikely that the minority shareholders of LSF will receive any other offer to acquire the LSF Shares from a third party without the approval of the Company. Accordingly, the Directors believe that the Proposal represents an excellent opportunity for all the minority shareholders of LSF to realise their entire investment at a cash price substantially above the levels at which the LSF Shares have consistently been traded in the past four years which is also significantly in excess of any price they might obtain under current market conditions if the Proposal does not take place. Accordingly, the Company requested LSF to put forward a proposal to the Scheme Shareholders regarding the privatisation of LSF by way of the Scheme under Section 99 of the Companies Act.

### **(b) Terms of the Proposal**

The Scheme will provide that the Scheme Shares be cancelled and, in consideration thereof, each Scheme Shareholder will be entitled to receive the Price, being HK\$2.90 in cash from the Company for every Scheme Share held. In determining the Price, the Directors have taken into account factors such as the trading liquidity and average market prices of the LSF Shares, as well as the factors noted under "Background to and Reasons for the Proposal" above.

The Price represents:

- a premium of approximately 2.7 per cent. over the closing price of HK\$2.825 per LSF Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 31.8 per cent. over the closing price of HK\$2.20 per LSF Share as quoted on the Stock Exchange on 28 March 2002 (being the last trading day prior to the suspension of trading in the LSF Shares pending the Announcement);



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## LETTER FROM MANAGEMENT CAPITAL LIMITED

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- a premium of approximately 30.6 per cent. over the average closing price of approximately HK\$2.22 per LSF Share based on the daily closing prices as quoted on the Stock Exchange over the five trading days up to and including 28 March 2002;
- a premium of approximately 30.6 per cent. over the average closing price of approximately HK\$2.22 per LSF Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including 28 March 2002;
- a premium of approximately 33.5 per cent. over the average closing price of approximately HK\$2.173 per LSF Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including 28 March 2002;
- a premium of approximately 51.0 per cent. over the average closing price of approximately HK\$1.92 per LSF Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including 28 March 2002;
- a discount of approximately 51.8 per cent. to the audited consolidated net tangible asset value (“NTAV”) per LSF Share of approximately HK\$6.02 as at 31 December 2001 (based on the audited net tangible assets of the LSF Group of approximately HK\$794.4 million less preference share capital of HK\$25 million in relation to the LSF Convertible Preference Shares, and divided by the 127,904,201 LSF Shares in issue as at the Latest Practicable Date);
- a discount of approximately 37.5 per cent. to the adjusted audited consolidated NTAV per LSF Share of approximately HK\$4.64 as at 31 December 2001, assuming full conversion of the LSF Convertible Preference Shares in issue as at the Latest Practicable Date (based on the audited net tangible assets of the LSF Group as noted above and divided by the total number of LSF Shares that would be in issue, assuming full conversion of the LSF Convertible Preference Shares);
- a discount of approximately 52.5 per cent. to the proforma NTAV per LSF Share of approximately HK\$6.11 which was computed after adjusting for the surplus arising from the valuation of the properties, property interests and plant as at 31 March 2002; and
- a discount of approximately 38.3 per cent. to the adjusted proforma NTAV per LSF Share of approximately HK\$4.70 which was computed after adjusting for the surplus arising from the valuation of the properties, property interests and plant as at 31 March 2002 and assuming full conversion of the LSF Convertible Preference Shares.

# LETTER FROM MANAGEMENT CAPITAL LIMITED

We have reviewed recent privatisation proposals in Hong Kong and summarise below the key statistics of relevant precedents (excluding companies whose principal businesses are in trading activities where the price to NTAV comparison is not appropriate):

Company	Premium over pre-announcement average closing share price (trading days)							(Discount) to audited NTAV per share %
	1 day	5 days	10 days	30 days	60 days	90 days	180 days	
	%	%	%	%	%	%	%	
IMC Holdings Limited	6.0	8.8	14.3	24.2	28.1	31.6	35.7	(58.0)
Evergo China	63.6	72.1	72.7	65.4	60.2	71.7	81.7	(79.6)
The Mingly Corp. Ltd	29.6	39.2	45.8	55.8	55.3	41.7	7.9	(41.8)
Wah Kwong Shipping	17.7	17.7	18.2	23.0	32.4	35.2	41.1	(50.6)
Minimum	6.0	8.8	14.3	23.0	28.1	31.6	7.9	(79.6)
Median	23.7	28.5	32.0	40.0	43.9	38.5	38.4	(54.3)
Maximum	63.6	72.1	72.7	65.4	60.2	71.7	81.7	(41.8)
Average	29.2	34.4	37.8	42.1	44.0	45.1	41.6	(57.5)
The Proposal	31.8	30.6	30.6	31.7	33.5	38.8	51.0	(51.8) <sup>(1)</sup>

*Notes:*

- (1) Assuming full conversion of the LSF Convertible Preference Shares in issue, the Price would represent a discount of approximately 37.5 per cent. to the adjusted consolidated NTAV per Share.

*Sources:* Announcements made by the respective companies and Bloomberg

We note that the discount of the Price to NTAV is in line with discounts for other recent privatisations which averaged about 57.5 per cent.. We also note that the Price is largely within the range of premia to pre-announcement closing share prices for other privatisation precedents. On this basis, we consider the Price to be acceptable from the Company's perspective.

## (c) Financial effects of the Proposal

### *Earnings*

For the year ended 31 December 2001, the Group reported a loss before taxation of HK\$348.6 million and a loss attributable to shareholders of HK\$219.2 million. This was the result of a thorough and critical appraisal of all its assets and the carrying value of the packaging business, which resulted in provisions of approximately HK\$154.7 million for the Food Segment, approximately HK\$184.8 million for the Packaging Segment and approximately HK\$23.3 million for the Bulk Trading Segment or, in aggregate, provisions of approximately HK\$362.8 million for impairment in the value of fixed assets and write-off of goodwill.

The Company does not expect any immediate material impact on earnings as a result of the Proposal after taking into account the elimination of minority interest in LSF and the cost of maintaining the listing of LSF which will no longer be required, as well as the cost associated with the Proposal.

### *Net asset value*

We note that the audited net asset value and net tangible asset value of the Group were approximately HK\$792.0 million and HK\$766.2 million respectively as at 31 December 2001. Based on the accounts as at 31 December 2001, the Proposal will not have any impact on the proforma net asset value of the Group which would remain unchanged but the proforma net tangible asset value would increase to approximately HK\$803.6 million. The increase in proforma net tangible asset value is the result of the creation of the capital reserve on consolidation (or negative goodwill) arising from acquiring the minority interest in LSF at a discount to the underlying asset backing.

### *Gearing*

As at the Latest Practicable Date, there were 127,904,201 LSF Shares in issue and the Scheme Shareholders were interested in 44,675,886 LSF Shares, representing approximately 34.9 per cent. of the issued capital of LSF. At the Price of HK\$2.90, the Proposal values the entire issued capital of LSF at approximately HK\$370.9 million. The maximum amount of cash required in order to effect the Proposal is approximately HK\$130.1 million, assuming that all the outstanding share options of LSF as referred to in section (d) below have been exercised. We are advised that the Proposal will be funded out of internal resources of the Company. Rothschild, the financial adviser to the Company in connection with the Proposal, has confirmed that it is satisfied that sufficient financial resources are available to the Company to implement the Proposal.

Based on the audited account as at 31 December 2001, the Group had borrowings (net of cash on hand) of approximately HK\$110.3 million which, based on the Shareholders' funds of HK\$792.0 million, represented a gearing ratio of approximately 13.9 per cent.. The completion of the Proposal will result in an increase in gearing, based on proforma net borrowings of approximately HK\$240.4 million and proforma Shareholders' funds of approximately HK\$792.0 million which represent a gearing ratio of approximately 30.4 per cent.. It should be noted that the actual change in the gearing ratio, which will decrease or increase with the Shareholders' Funds accruing to the Group from 1 January 2002 up to the completion of the Proposal, will be ascertained at completion. We consider the increase in gearing to be acceptable in view of the benefits derived through the Proposal, in particular, the acquisition of the minority interest in LSF at a significant discount to the underlying net asset backing and the increased flexibility to streamline resources and consolidate operations.

### **(d) Other considerations**

As at the Latest Practicable Date, LSF has granted options in favour of its employees to subscribe for up to 178,909 LSF Shares with exercise prices ranging between HK\$14.66 and HK\$22.38 per LSF Share and with an expiry period between 7 November 2003 and 7 May 2005. Since the exercise prices of these options are significantly above the Price, a nominal price will be paid for the cancellation of such options to be calculated on the basis of HK\$0.10 for each LSF Share subject to the relevant options.

As noted, the Company beneficially owns all the outstanding LSF Convertible Preference Shares. Accordingly, no offer is required to be extended in respect of these shares.

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## LETTER FROM MANAGEMENT CAPITAL LIMITED

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We also note that the Scheme will become effective and binding on LSF and all Scheme Shareholders subject to the fulfillment or waiver (as applicable) of a number of conditions, including approvals by LSF Independent Shareholders at the Court Meeting and by LSF Shareholders at the special general meeting of LSF. Details of the conditions are listed in the Letter from the Chairman.

### RECOMMENDATION

Having considered the above principal factors and reasons and, in particular, taking into account:

- The commercial rationale for rationalising the group structure by removing the superfluous listing of LSF via the Scheme;
- The Price being at a 51.8 per cent. discount to the audited consolidated net tangible asset value per LSF Share of approximately HK\$6.02 as at 31 December 2001;
- The Price is within the range of pre-announcement closing share prices for other privatisation precedents; and
- The Proposal will be funded out of internal resources of the Company;

we have advised the Independent Board Committee that we consider the Proposal is in the interests of the Shareholders.

Yours faithfully,  
For and on behalf of  
**MANAGEMENT CAPITAL LIMITED**

**A.K.S. Li**  
*Director*

**D.H.T. Yu**  
*Director*

## 1. RESPONSIBILITY STATEMENT

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.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the Directors had the following interests in the share capital of the Company and its subsidiaries which had been notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance), or which will be required, pursuant to Section 29 of the SDI Ordinance to be entered into the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

	Number of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
<b>(i) The Company</b>				
WHANG Tar Choung	7,337,637	6,222,534	—	131,461,065 <i>(Notes a &amp; b)</i>
NG Ping Kin, Peter	712,000	—	—	—
TSAO Chen, James	50,000	—	—	—
WHANG Sun Tze	28,623,743	—	19,326	116,396,624 <i>(Note c) (Notes a &amp; d)</i>
LO Kwong Chi, Clement	323,754	—	—	—
TAN Lim Heng	274,000	—	—	—
ENG, James Jr.	149,000	—	—	—
HO King Cheung	30,690	—	—	—
YONG Weng Chye	809,000	—	—	—
<b>(ii) Subsidiaries</b>				
<b>Lam Soon Food Industries Limited</b>				
WHANG Tar Choung	—	90,000	—	—
TSAO Chen, James	142,000	—	—	—
WHANG Sun Tze	3,670,090	—	21,500	— <i>(Note e)</i>
LO Kwong Chi, Clement	40,000	—	—	—
HO King Cheung	19	—	—	—
<b>M.C. Packaging Offshore Limited</b>				
NG Ping Kin, Peter	3,000	—	—	—

## Notes:

- (a) The interest disclosed herein included the interest in the Company which the respective parties held by virtue of the provisions of Sections 8, 9 and 10 of the Securities (Disclosure of Interests) Ordinance and the shareholders' agreement and the supplemental agreement both dated 27 May 1997 made, inter alia, between Mr WHANG Tar Choung, Mdm TEO Joo Yee, Dr WHANG Sun Tze (alias WHANG Siang Tiat), Raven Investment Company Limited, T.C. Whang & Company (Private) Limited and Guoinvest.
- (b) The interest disclosed represents the interest of Mr WHANG Tar Choung in 131,461,065 Shares referred to in Note (a) above.
- (c) The interest disclosed represents the corporate interest of Dr WHANG Sun Tze in 19,326 Shares held by T.C. Whang & Company (Private) Limited and SGR Investment Company Limited.
- (d) The interest disclosed represents the interest of Dr WHANG Sun Tze in 116,396,624 Shares referred to in Note (a) above.
- (e) The interest disclosed represents the corporate interest of Dr WHANG Sun Tze in 21,500 LSF Shares held by T.C. Whang & Company (Private) Limited.

	Share options		
	Exercise period	Exercise price per share HK\$	Number of share options held
<b>(i) Subsidiary</b>			
<b>Flourtech International Holdings Limited</b>			
HO King Cheung	1 February 1993 to 31 January 2003	1.00	180,000

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors had or was deemed to have any interests in the share capital of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or Part 1, of the Schedule to, the SDI Ordinance), or which are required, pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

None of the Directors is materially interested in any contract or arrangement subsisting as at the Latest Practicable Date which is significant to the business of the Group taken as a whole.

None of the Directors has or proposes to have a service agreement with any member of the Group, other than contracts expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation.

Since 31 December 2001, the date to which the latest published audited financial statements of the Group were made up, none of the Directors or any professional advisers named in paragraph 5 of this appendix has any direct or indirect material interest in any assets which have been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

### 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register kept by the Company under Section 16(1) of the SDI Ordinance and so far as is known to the Directors, the following persons were the substantial Shareholders and had the following interests:

	Notes	Number of Shares held
Raven Investment Company Limited (“Raven”)	A + B	145,021,236
T.C. Whang & Company (Private) Limited (“T.C. & Co.”)	A + C	145,021,236
TEO Joo Yee	A + D	145,021,236
Guoinvest	A + E	145,021,236
Providence Investments N.V.	A + F	145,021,236
Guoline Capital Assets Limited	A + F	145,021,236
Hong Leong Company (Malaysia) Berhad	A + F	145,021,236
QUEK Leng Chan	A + F	145,021,236
HL Holdings Sdn Bhd	A + F	145,021,236
Hong Leong Investment Holdings Pte Limited	A + F	145,021,236
Kwek Holdings Pte Limited	A + F	145,021,236
Euro-Asia Food Limited (“Euro-Asia”)		29,444,411
Hap Seng Consolidated Berhad (“Hap Seng”)	G	29,444,411
Malaysian Mosaics Berhad (“Malaysian Mosaics”)	H	29,444,411
Gek Poh (Holdings) Sdn. Bhd (“Gek Poh”)	I	29,444,411
Datuk Seri Panglima Lau Cho Kun	J	29,444,411
Tan Sri Datuk Seri Panglima Lau Gek Poh	K	29,444,411

*Notes:*

- (A) *The interests disclosed herein included the interest in the Company which the respective parties held by virtue of the provisions of Section 8, 9 and 10 of the Securities (Disclosure of Interests) Ordinance and the shareholders’ agreement and the supplemental agreement both dated 27 May 1997 made, inter alia, between Mr WHANG Tar Choung, Mdm TEO Joo Yee, Dr WHANG Sun Tze (alias WHANG Siong Tiat), Raven, T.C. & Co. and Guoinvest.*
- (B) *The interests disclosed comprise (i) own interest of Raven in 8,221,205 Shares and (ii) the interest in 136,800,031 Shares referred to in Note A above.*
- (C) *The interests disclosed comprise (i) own interest of T.C. & Co. in 869 Shares and (ii) the interest in 145,020,367 Shares referred to in Note A above.*
- (D) *The interests disclosed comprise (i) own interest of TEO Joo Yee in 6,222,534 Shares and (ii) the interest in 138,798,702 Shares referred to in Note A above.*
- (E) *The interests disclosed comprise (i) own interest of Guoinvest in 94,615,248 Shares and (ii) the interest in 50,405,988 Shares referred to in Note A above.*

- (F) *The interests disclosed comprise (i) the corporate interests in 94,615,248 Shares held through Guoinvest referred to in Note E above and (ii) the interest in 50,405,988 Shares referred to in Note (A) above.*
- (G) *The interests disclosed represent the aggregate corporate interests which Hap Seng held in the Company through Euro-Asia.*
- (H) *The interests disclosed represent the aggregate corporate interests which Malaysian Mosaics held in the Company through Hap Seng and Euro-Asia.*
- (I) *The interests disclosed represent the aggregate corporate interests which Gek Poh held in the Company through Malaysian Mosaics, Hap Seng and Euro-Asia.*
- (J) *The interests disclosed represent the aggregate corporate interests which Datuk Seri Panglima Lau Cho Kun held in the Company through Gek Poh, Malaysian Mosaics, Hap Seng and Euro-Asia.*
- (K) *The interests disclosed represent the aggregate corporate interests which Tan Sri Datuk Seri Panglima Lau Gek Poh held in the Company through Datuk Seri Panglima Lau Cho Kun, Gek Poh, Malaysian Mosaics, Hap Seng and Euro-Asia.*

Save as disclosed in the preceding paragraph, the Directors are not aware of any person who were, as at the Latest Practicable Date, beneficially interested in Shares representing 10 per cent. or more of the Shares in issue.

#### **4. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claims of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

#### **5. EXPERT**

- (a) MCL is a registered investment adviser under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), and does not have any shareholding in any member of the Group nor any right (whether legally enforceable or not) to subscribe for securities in any member of the Group.
- (b) MCL has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of its letter and references to its name in the form and context in which they appear, and such letter, and the recommendation given by MCL, is given as at the date of this circular for incorporation herein.

#### **6. MATERIAL CHANGES**

The Directors are not aware of any material adverse change in the financial or trading prospects of the Company since 31 December 2001, the date at which the latest audited financial statements of the Company were made up.

#### **7. MISCELLANEOUS**

- (a) The joint secretaries of the Company are Ms CHENG Man Ying and Mr YEUNG Yuk Lun.
- (b) The registered office of the Company is at 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong.



- (c) The share registrars of the Company is Hongkong Managers and Secretaries Limited, and the transfer office is at Citicorp Centre, 26th Floor, 18 Whitfield Road, Causeway Bay, Hong Kong.
- (d) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

## 8. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be available for inspection at the offices of the Company, 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong from the date hereof until 29 May 2002.

- (a) The memorandum and articles of association of the Company.
- (b) The letter from the Independent Board Committee, the text of which is set out on page 11 of this circular.
- (c) The letter from Management Capital Limited, the text of which is set out on pages 12 to 18 of this circular.
- (d) The letter of consent as referred to in this appendix.
- (e) The terms of the LSF Convertible Preference Shares.

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to any aspect of this document, you should consult your 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 Lam Soon Food Industries Limited, you should at once hand this document and the accompanying forms of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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**LAM SOON FOOD INDUSTRIES LIMITED**

*(Incorporated in Bermuda with limited liability)*

**Proposed privatisation of Lam Soon Food Industries Limited by  
Lam Soon (Hong Kong) Limited by way of a scheme of arrangement under  
Section 99 of the Companies Act 1981 of Bermuda**

**Financial adviser to Lam Soon (Hong Kong) Limited**



**Independent financial adviser to the independent shareholders of  
Lam Soon Food Industries Limited**



A letter from the Chairman of Lam Soon Food Industries Limited is set out on pages 6 to 10 of this document. An explanatory statement regarding the Proposal (as defined herein) is set out on pages 24 to 31 of this document. A letter from Access Capital Limited containing its advice to the Independent Shareholders (as defined herein) in relation to the Proposal is set out on pages 11 to 23 of this document.

The actions to be taken by the Independent Shareholders and the Scheme Shareholders (as defined herein) are set out on page 31 of this document.

Notices convening the Court Meeting (as defined herein) and the Special General Meeting (as defined herein) to be held at 10:00 a.m. and 10:30 a.m. respectively on Wednesday, 29 May 2002 are set out on pages 112 to 115 of this document. Whether or not you are able to attend the Court Meeting and the Special General Meeting or any of them, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the Special General Meeting, in accordance with the instructions printed thereon, and to lodge them with the branch share registrars of Lam Soon Food Industries Limited in Hong Kong, Central Registration Hong Kong Limited, Room 1901–1905, 19/F., Hopewell Centre, No. 183 Queen's Road East, Hong Kong, as soon as possible but in any event not later than the times and dates stated in the paragraph headed "Actions to be taken" on page 31 of this document.

6 May 2002

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## DEFINITIONS

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

“Access Capital”	Access Capital Limited, an investment adviser and a securities dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the independent financial adviser to the Independent Shareholders and Scheme Shareholders in connection with the Proposal and the Scheme
“Announcement”	the announcement dated 4 April 2002 issued jointly by the Board and the board of directors of LSHK containing, <i>inter alia</i> , details of the Proposal and the Scheme
“Announcement Date”	4 April 2002, the date on which the Announcement was made
“Associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Authorisation(s)”	all the necessary authorisation(s), registration(s), filing(s), ruling(s), consent(s), permission(s) and approval(s) in connection with the Proposal
“Board”	the board of Directors
“Companies Act”	the Companies Act 1981 of Bermuda
“Company”	Lam Soon Food Industries Limited, a company incorporated in Bermuda with limited liability
“Convertible Preference Shares”	the 5 per cent. non-cumulative convertible preference shares of HK\$0.05 each of the Company
“Court Meeting”	a meeting of the Independent Shareholders convened at the direction of the Supreme Court at 10:00 a.m. on Wednesday, 29 May 2002, the notice of which is set out on pages 112 to 113 of this document
“Director(s)”	the director(s) of the Company
“Effective Date”	the date on which the Scheme, if approved, becomes effective, which is expected to be on Thursday, 20 June 2002 (Bermuda time), equivalent to Friday, 21 June 2002 (Hong Kong time)
“Excluded Persons”	Messrs. WHANG Tar Choung, TSAO Chen, James, WHANG Sun Tze, LO Kwong Chi, Clement and HO King Cheung and their Associates, being parties acting in concert with LSHK in respect of the Company for the purposes of the Takeovers Code
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate thereof
“Group”	the Company and its subsidiaries

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## DEFINITIONS

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“Guoinvest”	Guoinvest International Limited, the ultimate controlling shareholder of LSHK, which owned approximately 38.9 per cent. of the issued share capital of LSHK as at the Latest Practicable Date
“Hong Kong”	the Hong Kong Special Administrative Region of The People’s Republic of China
“Independent Shareholder(s)”	Shareholder(s) other than LSHK and the Excluded Persons and parties acting in concert with any of them, together with their Associates
“Latest Practicable Date”	2 May 2002, being the latest practicable date prior to the issue of this document for ascertaining certain information contained herein
“Listing Rule”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“LSHK”	Lam Soon (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability
“LSHK Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of LSHK
“LSHK Shareholder(s)”	registered holder(s) of LSHK Shares
“Price”	a price of HK\$2.90 per Scheme Share payable to the Scheme Shareholders under the Scheme
“Proposal”	the proposal for the privatisation of the Company by LSHK by way of the Scheme
“PRC”	the People’s Republic of China
“Record Date”	Wednesday, 19 June 2002 or such other date as may be announced to the Shareholders, the record date for determining entitlements under the Scheme
“Relevant Authorities”	appropriate government(s) and/or governmental bodies, regulatory bodies, courts or institution(s)
“Rothschild”	N M Rothschild & Sons (Hong Kong) Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and financial adviser to LSHK in relation to the Proposal
“Scheme”	the scheme of arrangement under section 99 of the Companies Act involving the cancellation of all Scheme Shares set out on pages 108 to 111 of this document
“Scheme Share(s)”	Share(s) held by Scheme Shareholder(s)
“Scheme Shareholder(s)”	Shareholder(s) other than LSHK
“Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of the Company

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## DEFINITIONS

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“Shareholder(s)”	registered holder(s) of Shares
“Share Option Holder(s)”	holder(s) of Share Option(s)
“Share Option Proposal”	the proposal to Share Option Holders for the cancellation of all outstanding Share Options issued under the Share Option Scheme
“Share Option(s)”	the share option(s) outstanding under the Share Option Scheme
“Share Option Scheme”	the share option scheme of the Company adopted on 3 June 1993
“Special General Meeting”	the special general meeting of the Company to be held at 10:30 a.m. on Wednesday, 29 May 2002 immediately after the Court Meeting at 3/F., Lam Soon Building, 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong, the notice of which is set out on pages 114 to 115 of this document, or any adjournment thereof
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supreme Court”	the Supreme Court of Bermuda
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“NT\$”	Taiwan dollar(s), the lawful currency of Taiwan
“sq.m.”	square metre

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## EXPECTED TIMETABLE

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2002

Latest time for exercise of Share Options . . . . .	Tuesday, 21 May
Conditional lapse of Share Options . . . . .	Wednesday, 22 May
Closure of register of members for the purpose of determining the Scheme Shareholders entitled to attend and vote at the meetings . . . . .	from 4:00 p.m. on Friday, 24 May to 4:00 p.m. on Wednesday, 29 May
Latest time for lodging forms of proxy in respect of <i>(Note 1)</i> :	
Court Meeting . . . . .	10:00 a.m. on Monday, 27 May
Special General Meeting . . . . .	10:30 a.m. on Monday, 27 May
Court Meeting <i>(Note 2)</i> . . . . .	10:00 a.m. on Wednesday, 29 May
Special General Meeting <i>(Note 2)</i> . . . . .	10:30 a.m. on Wednesday, 29 May
Court hearing of the petition to sanction the Scheme <i>(Note 3)</i> . . . . .	Friday, 7 June
Last day of dealing in Shares . . . . .	Wednesday, 12 June
Latest time for lodging transfers of Shares to qualify for entitlements under the Scheme . . . . .	4:00 p.m. on Monday, 17 June
Closure of register of members for the purpose of determining entitlements of the Scheme Shareholders to the Price . . . . .	4:00 p.m. on Monday, 17 June
Record Date . . . . .	Wednesday, 19 June
Effective Date <i>(Note 4)</i> . . . . .	Thursday, 20 June
Withdrawal of the listing of the Shares on the Stock Exchange <i>(Note 4)</i> . . . . .	9:30 a.m. on Friday, 21 June
Cheques for cash entitlements under the Scheme and Share Option Proposal despatched on or before . . . . .	Monday, 24 June

*Notes:*

- Forms of proxy should be lodged with the branch share registrars of the Company in Hong Kong, Central Registration Hong Kong Limited, Room 1901–1905, 19/F., Hopewell Centre, No. 183 Queen’s Road East, Hong Kong, as soon as possible and in any event not later than the relevant times and dates stated above. Completion and return of a form of proxy for the Court Meeting or the Special General Meeting will not preclude a Shareholder from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.*
- The Court Meeting and the Special General Meeting will be held at 3/F., Lam Soon Building, 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong at the times and dates specified above.*



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## EXPECTED TIMETABLE

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3. *All references in this document to times and dates are references to Hong Kong times and dates, other than references to the expected date for the Supreme Court hearing of the petition to sanction the Scheme and the Effective Date (see Note 4 below) which are to the relevant dates in Bermuda.*
4. *The Scheme will become effective when it is sanctioned (with or without modification(s)) by the Supreme Court and a copy of the Supreme Court order is delivered to the Registrar of Companies in Bermuda for registration and is registered. Registration is expected to take place on Thursday, 20 June 2002 (Bermuda time), which is equivalent to Friday, 21 June 2002 (Hong Kong time). Independent Shareholders should note the conditions of the Proposal as set out on pages 24 to 25 of this document. It is expected that the listing of the Shares on the Stock Exchange will be withdrawn at 9:30 a.m. on Friday, 21 June 2002.*



## LAM SOON FOOD INDUSTRIES LIMITED

*(Incorporated in Bermuda with limited liability)*

*Directors*

WHANG Tar Choung, *Chairman*  
NG Ping Kin, Peter, *Vice Chairman\**  
TSAO Chen, James, *Group Managing Director*  
WHANG Sun Tze  
LO Kwong Chi, *Clement\**  
KWEK Leng Hai  
TSANG Cho Tai\*  
HIRANO Hiroshi  
SATO Hisanori  
HO King Cheung  
ICHIKAWA Hiroshi (*alternate Director to HIRANO Hiroshi*)  
OHASHI Kota (*alternate Director to SATO Hisanori*)

\* *Independent Non-Executive Director*

*Registered office*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business*

21 Dai Fu Street  
Tai Po Industrial Estate  
Tai Po  
New Territories  
Hong Kong

6 May 2002

*To the Shareholders and  
Share Option Holders*

Dear Sir or Madam,

**Proposed privatisation of Lam Soon Food Industries Limited by  
Lam Soon (Hong Kong) Limited by way of a scheme of arrangement under  
Section 99 of the Companies Act 1981 of Bermuda**

### INTRODUCTION

It was announced on 4 April 2002 that LSHK had requested the Company to put forward the Proposal to the Scheme Shareholders. LSHK proposes that all Scheme Shares will be cancelled in exchange for HK\$2.90 in cash for each Scheme Share.

As at the Latest Practicable Date, the Scheme Shareholders were interested in 44,675,886 Shares, representing approximately 34.9 per cent. of the issued share capital of the Company. Upon the approval of the Scheme by the Independent Shareholders at the Court Meeting, the passing of the special resolution to implement and give effect to the Proposal at the Special General Meeting by the Shareholders and the sanction of the Scheme by the Supreme Court, the Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange. In the event that the Proposal is not approved or lapses, the Company will maintain the listing of the Shares on the Stock Exchange.

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## LETTER FROM THE CHAIRMAN

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As at the Latest Practicable Date, LSHK was beneficially interested in 83,228,315 Shares, representing approximately 65.1 per cent. of the issued share capital of the Company. Shares held by LSHK will not form part of the Scheme Shares. Accordingly, LSHK is not entitled to vote and its concert parties will not vote at the Court Meeting. Under the Takeovers Code, the Excluded Persons are presumed to be persons acting in concert with LSHK and no votes will be cast at the Court Meeting in respect of the Shares in which the Excluded Persons and their concert parties are interested. Other than the Excluded Persons and their respective concert parties, none of LSHK's concert parties has any interest in Shares as at the Latest Practicable Date.

LSHK and the Excluded Persons have confirmed that if the Scheme is approved at the Court Meeting, they and their Associates will vote in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme.

As at the Latest Practicable Date, the Company has granted Share Options in favour of its employees to subscribe for 178,909 Shares with exercise prices ranging between HK\$14.66 and HK\$22.38 per Share and with an expiry period between 7 November 2003 and 7 May 2005. Under the terms of the Share Option Scheme and as a result of Proposal, all Shares Options will conditionally lapse and will cease to be exercisable after 21 May 2002, subject to the Scheme becoming effective. If the Scheme does not become effective, such Share Options would not lapse and would again be exercisable. Since the exercise prices of the Share Options are significantly above the Price, LSHK has offered, under the terms of the Share Option Proposal, and conditional upon the Scheme becoming effective, to pay a cash amount of HK\$0.10 for each Share subject to the relevant Share Options immediately before the Effective Date. If however, any of the Share Option Holders shall exercise their subscription rights attaching to the options in accordance with the terms of the Share Option Scheme, the Shares which fall to be issued shall form part of the Scheme Shares.

Furthermore, the Company had 500,000,000 Convertible Preference Shares outstanding as at the Latest Practicable Date which can be converted into 43,425,000 Shares at approximately HK\$8.52 per Share. LSHK is the beneficial owner of all the Convertible Preference Shares which are convertible at its sole option. The Company will be entitled to redeem all or any of the Convertible Preference Shares after 11 July 2002. Since all the Convertible Preference Shares are held by LSHK, no offer will be extended in respect of the Convertible Preference Shares and they will not be subject to the Scheme.

As Messrs. WHANG Tar Choung, NG Ping Kin, Peter, TSAO Chen, James, WHANG Sun Tze, LO Kwong Chi, Clement, KWEK Leng Hai, TSANG Cho Tai and HO King Cheung are also directors of LSHK, they are not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposal. In addition, Messrs. HIRANO Hiroshi and SATO Hisanori are directors of Mitsui & Co., Ltd. and Mitsui & Co. (H.K.) Ltd. where the Mitsui group of companies have frequent and extensive business dealings with LSHK and its subsidiaries. Accordingly, they are also not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders in respect of the Proposal. As such, Access Capital has been appointed as the independent financial adviser to advise the Independent Shareholders directly in connection with the Proposal and the Scheme and the Share Option Holders in respect of the Share Option Proposal.

Rothschild has been appointed as financial adviser to LSHK in connection with the Proposal.

A Notice of the Court Meeting is set out on pages 112 to 113 of this document. A notice of the Special General Meeting is set out on pages 114 to 115 of this document. The Court Meeting and the Special General Meeting will be held on Wednesday, 29 May 2002 at 3/F., Lam Soon Building, 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong at the times specified in the respective notices.

### TERMS OF THE PROPOSAL

It is proposed that subject to the fulfilment or waiver (as applicable) of the conditions of the Proposal as described in the Explanatory Statement in this document, the Proposal will be implemented by way of the Scheme, which will involve the cancellation of all the Scheme Shares by way of a reduction of the issued share capital of the Company under Section 46 of the Companies Act. The Scheme also provides that, in consideration thereof, each Scheme Shareholder will be entitled to receive the Price, being HK\$2.90 in cash from LSHK for every Scheme Share held.

The Price represents:

- **a premium of approximately 2.7 per cent.** over the closing price of HK\$2.825 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- **a premium of approximately 31.8 per cent.** over the closing price of HK\$2.200 per Share as quoted on the Stock Exchange on 28 March 2002 (being the last trading day prior to the suspension of trading of the Shares from 9:30 a.m. on 2 April 2002, pending the issue of the Announcement);
- **a premium of approximately 30.6 per cent.** over the average closing price of approximately HK\$2.220 per Share based on the daily closing prices as quoted on the Stock Exchange over the five trading days up to and including 28 March 2002;
- **a premium of approximately 30.6 per cent.** over the average closing price of approximately HK\$2.220 per Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including 28 March 2002;
- **a premium of approximately 33.5 per cent.** over the average closing price of approximately HK\$2.173 per Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including 28 March 2002;
- **a premium of approximately 51.0 per cent.** over the average closing price of approximately HK\$1.920 per Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including 28 March 2002;
- **a discount of approximately 51.8 per cent.** to the audited consolidated net tangible asset value per Share of approximately HK\$6.02 as at 31 December 2001 (which was computed based on the audited net tangible assets of the Group of approximately HK\$794.4 million less share capital of HK\$25 million of the Convertible Preference Shares, and divided by the total number of 127,904,201 Shares in issue as at the Latest Practicable Date);
- **a discount of approximately 37.5 per cent.** to the adjusted consolidated net tangible asset value per Share of approximately HK\$4.64 (which was computed based on the audited net tangible assets as set out above and divided by the total number of Shares in issue, assuming full conversion of the Convertible Preference Shares);
- **a discount of approximately 52.5 per cent.** to the proforma net tangible asset value per Share of approximately HK\$6.11 which was computed after adjusted for the surplus arising from the valuation of the properties, property interests and plants of the Group as at 31 March 2002 as referred to in the section headed “Proforma Unaudited Consolidated Net Tangible Assets of the Group” in Appendix I; and

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## LETTER FROM THE CHAIRMAN

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- **a discount of approximately 38.3 per cent.** to the adjusted proforma net tangible asset value per Share of approximately HK\$4.70 which was computed after adjusted for the surplus arising from the valuation of the properties, property interests and plants of the Group as at 31 March 2002 and assuming full conversion of the Convertible Preference Shares as referred to in the section headed “Proforma Unaudited Consolidated Net Tangible Assets of the Group” in Appendix I.

The historical share price information on the Shares is set out in Appendix IV.

As at the Latest Practicable Date, there were 127,904,201 Shares in issue and the Scheme Shareholders were interested in 44,675,886 Shares, representing approximately 34.9 per cent. of the issued capital of the Company. At the Price of HK\$2.90, the Proposal values the entire issued capital of the Company at approximately HK\$370.9 million. The maximum amount of cash required in order to effect the Proposal is approximately HK\$130.1 million (assuming that all the outstanding Share Options have been exercised), which will be funded out of the internal resources of LSHK reserved for the purpose of the Proposal. Rothschild, the financial adviser to LSHK in connection with the Proposal, has confirmed that it is satisfied that sufficient financial resources are available to LSHK for the implementation of the Proposal.

Apart from the Shares, the Convertible Preference Shares and the Share Options, the Company did not have any warrants, options, convertible securities or other securities in issue as at the Latest Practicable Date.

The Proposal will become effective and binding on the Company and all Shareholders provided that all conditions of the Proposal are fulfilled or waived, as applicable.

Assuming that the Scheme becomes effective on Thursday, 20 June 2002 (Bermuda time), cheques for cash entitlements under the Scheme and the Share Option Proposal are expected to be despatched to the Scheme Shareholders and the Share Option Holders on or before Monday, 24 June 2002.

### **CONDITIONS OF THE PROPOSAL**

Your attention is drawn to the section headed “Conditions of the Proposal” in the Explanatory Statement set out on pages 24 to 25 of this document.

### **REASONS FOR AND BENEFITS OF THE PROPOSAL**

Your attention is drawn to the paragraph headed “Reasons for and Benefits of the Proposal” in the Explanatory Statement as set out on pages 25 to 26 of this document.

### **INFORMATION ON THE GROUP AND FUTURE INTENTIONS**

Your attention is drawn to the paragraph headed “Information on the Group” and “Future Intentions” in the Explanatory Statement as set out on pages 28 and 26 of this document respectively.

### **MEETINGS AND ACTIONS TO BE TAKEN**

A Notice convening the Court Meeting is set out on pages 112 to 113 of this document. A Notice convening the Special General Meeting is set out on pages 114 to 115 of this document. The Court Meeting and the Special General Meeting have been convened and will be held on Wednesday, 29 May 2002. The Supreme Court has directed that the Court Meeting be held to consider and, if thought fit, to approve the Scheme (with or without modification(s)). Following the Court Meeting, the Special General Meeting will

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## LETTER FROM THE CHAIRMAN

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be held for the purpose of considering and, if thought fit, passing a special resolution to implement and give effect to the Scheme. At the Latest Practicable Date, LSHK was beneficially interested in 83,228,315 Shares, representing approximately 65.1 per cent. of the issued share capital of the Company. Shares held by LSHK will not form part of the Scheme Shares. Accordingly, LSHK is not entitled to vote and its concert parties will not be voting at the Court Meeting. Under the Takeovers Code, the Excluded Persons are presumed to be persons acting in concert with LSHK and no votes will be cast at the Court Meeting in respect of the Shares in which the Excluded Persons and their concert parties are interested. However, LSHK and the Excluded Persons have confirmed that if the Scheme is approved at the Court Meeting, they and their Associates will vote in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme.

Whether or not you are able to attend the Court Meeting and the Special General Meeting or either of them, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the Special General Meeting, in accordance with the instructions printed thereon, and to lodge them with the branch registrars of the Company in Hong Kong, Central Registration Hong Kong Limited, Room 1901–1905, 19/F., Hopewell Centre, No. 183 Queen’s Road East, Hong Kong. The pink form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. on Monday, 27 May 2002. In order to be valid, the white form of proxy for use at the Special General Meeting should be lodged not later than 10:30 a.m. on Monday, 27 May 2002. Completion and return of a form of proxy for the Court Meeting or for the Special General Meeting will not preclude you from attending and voting in person at the relevant meeting. In such event, the form of proxy will be deemed to have been revoked.

### **RECOMMENDATIONS**

Shareholders are strongly urged to read the letter from Access Capital as set out on pages 11 to 23 of this document before deciding how to vote at the Court Meeting and the Special General Meeting.

### **SHARE CERTIFICATES, DEALINGS, LISTING, REGISTRATION AND PAYMENT**

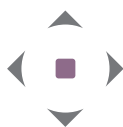
Your attention is drawn to the sections headed “Share Certificates, Dealings and Listing” and “Registration and Payment” in the Explanatory Statement set out on pages 29 to 30 of this document.

### **FURTHER INFORMATION**

You are urged to read carefully the letter from Access Capital as set out on pages 11 to 23 of this document, the Explanatory Statement as set out on pages 24 to 31 of this document, the appendices to this document, the Scheme as set out on pages 108 to 111 of this document, and the notices of the Court Meeting and the Special General Meeting set out on pages 112 to 113 and pages 114 to 115 respectively of this document.

Yours faithfully,  
**WHANG Tar Choung**  
*Chairman*

*The following is the full text of the letter from Access Capital setting out its advice to the Independent Shareholders and the Share Option Holders in relation to the Proposal and the Share Option Proposal.*



ACCESS  
CAPITAL

3rd Floor  
8 Queen's Road Central  
Hong Kong

6 May 2002

*The Independent Shareholders and  
Share Option Holders*

Dear Sirs,

**Proposed privatisation of Lam Soon Food Industries Limited by  
Lam Soon (Hong Kong) Limited by way of a scheme of arrangement under  
Section 99 of the Companies Act 1981 of Bermuda**

**INTRODUCTION**

We refer to our appointment to advise the Independent Shareholders and the Share Option Holders in respect of the Proposal and the Share Option Proposal, details of which are contained in the "Letter from the Chairman" set out on pages 6 to 10 of the scheme document to the Shareholders dated 6 May 2002 (the "Scheme Document"), of which this letter forms part. Terms used in this letter shall have the same meanings given to them in the Scheme Document unless the context otherwise requires.

As Messrs. WHANG Tar Choung, NG Ping Kin, Peter, TSAO Chen, James, WHANG Sun Tze, LO Kwong Chi, Clement, KWEK Leng Hai, TSANG Cho Tai and HO King Cheung are also directors of LSHK, they are not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders and the Share Option Holders in respect of the Proposal and the Share Option Proposal. In addition, Messrs. HIRANO Hiroshi and SATO Hisanori are directors of Mitsui & Co., Ltd. and Mitsui & Co. (H.K.) Ltd. where the Mitsui group of companies have frequent and extensive business dealings with LSHK and its subsidiaries. Accordingly, they are also not considered to be sufficiently independent under the Takeovers Code for the purpose of advising the Independent Shareholders and the Share Option Holders in respect of the Proposal and the Share Option Proposal. As such, Access Capital has been appointed as the independent financial adviser to advise the Independent Shareholders directly in connection with the Proposal and the Scheme and the Share Option Proposal.

We have been appointed by the Company to advise the Independent Shareholders and the Share Option Holders as to whether the terms of the Proposal and the Share Option Proposal are fair and reasonable so far as the Independent Shareholders and the Share Option Holders are concerned and to give our opinion on the Proposal and the Share Option Proposal for their consideration.

In formulating our advice, we have relied to a considerable extent on the statements, information, opinion and representations contained in the Scheme Document and the information and representations provided to us by the management of the Company and the Directors. We have assumed that all such

statements, information, assumptions, expectations, opinions and representations contained or referred to in the Scheme Document or otherwise provided by the management of the Company and the Directors (and for which they are solely responsible) were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Scheme Document. We have assumed that all the assumptions and opinions made or provided by the management of the Company and the Directors contained in the Scheme Document have been reasonably made after due and careful enquiry. We have also assumed that all statements of belief, opinion and intention of LSHK regarding the Company as set out in the “Explanatory Statement” on pages 24 to 31 of the Scheme Document have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and referred to in the Scheme Document.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of LSHK, the Company, or any of its subsidiaries.

We have not considered the tax implications, if any, on the Scheme Shareholders of their acceptance or non-acceptance of the Proposal or its implementation. In particular, Scheme Shareholders who are residents in tax jurisdictions outside Hong Kong or are subject to overseas taxes or Hong Kong tax on securities dealings should consult their own professional advisers with regard to their respective tax positions.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

#### **1. Background and the terms of the Proposal**

It was announced on 4 April 2002 that LSHK had requested the Company to put forward the Proposal to the Scheme Shareholders. LSHK proposed that the Scheme Shares be cancelled in exchange for HK\$2.90 in cash for each Scheme Share.

As at the Latest Practicable Date, there were 127,904,201 Shares in issue and the Scheme Shareholders were interested in 44,675,886 Shares, representing approximately 34.9 per cent. of the issued capital of the Company. At the Price of HK\$2.90, the Proposal values the entire issued capital of the Company at approximately HK\$370.9 million.

As at the Latest Practicable Date, the Company had granted Share Options in favour of its employees to subscribe for 178,909 Shares with exercise prices ranging between HK\$14.66 and HK\$22.38 per Share and with expiry periods between 7 November 2003 and 7 May 2005. Under the terms of the Share Option Scheme and as a result of Proposal, all Share Options will conditionally lapse, and will cease to be exercisable after 21 May 2002 subject to the Scheme becoming effective. If the Scheme does not become effective, such Share Options would not lapse and would again be exercisable. Since the exercise prices of these options are significantly above the Price, LSHK has offered, under the terms of the Share Option Proposal, and conditional upon the Scheme becoming effective, to pay a cash amount of HK\$0.10 for each Share subject to the relevant Share Options



outstanding immediately before the Effective Date. If however, any of the holders of the options shall exercise their subscription rights attaching to the options in accordance with the terms of the share option scheme, the Shares which fall to be issued will form part of the Scheme Shares.

As at the Latest Practicable Date, the Company had 500,000,000 Convertible Preference Shares outstanding which can be converted into 43,425,000 Shares at approximately HK\$8.52 per Share. LSHK is the beneficial owner of all the Convertible Preference Shares which are convertible at its sole option. The Company will be entitled to redeem any or all of the Convertible Preference Shares after 11 July 2002. Since all the Convertible Preference Shares are held by LSHK, no offer will be extended in respect of the Convertible Preference Shares.

Apart from the Shares, the Share Options and the Convertible Preference Shares, the Company did not have any other warrants, options, convertible securities or other securities in issue as at the Latest Practicable Date.

## **2. Reasons for the Proposal**

As noted in the section headed “Reasons for and Benefits of the Proposal” in the “Explanatory Statement”, the Company is conducting its business in a difficult operating environment and against an uncertain economic outlook. The Group has sustained losses for each of the last three financial years and reported a net loss of approximately HK\$369.1 million for the financial year ended 31 December 2001. This most recent net loss included a provision for a non-recurrent item of approximately HK\$370.1 million in respect of an impairment to the carrying value of its packaging business and other assets.

Whilst the directors of LSHK believe that the recent accession of China as a member of the World Trade Organisation will offer long-term growth prospects in the food and agricultural sector, the accession will also increase the level of competition in that market. Additionally, the Directors believe that the prospects of the Company’s packaging business will continue to be challenging. Based upon the aforesaid reason, we concur with the view of the Directors.

The average daily trading volume of the Shares in the past 180 trading days up to and including 28 March 2002 was 40,294 Shares. During the same period, the Shares have been consistently traded at prices which the directors of LSHK believe do not reflect the value of the Company. The average daily trading volume of the Shares in the past 180 trading days up to and including the Latest Practicable Date is approximately 83,919 Shares. In addition to the operational background against which the Company is working, the investment community has shown a low level of interest in the Company. In the last three years, no published research coverage has been prepared on the Company by securities analysts. This level of interest is further reflected by the low monthly trading volume of the Shares, as more fully described in paragraph 3(b) below, and the fact that the Shares have been consistently traded at prices which the Directors of LSHK believe do not reflect the value of the Company. The Company has not raised any equity funds from the market after 1997 and does not intend to raise any new funds from the equity capital market in the foreseeable future given the valuation accorded to the Company and the low level of trading liquidity of the Shares. Consequently, having considered the above factors, the directors of LSHK are of the view that the costs associated with the maintenance of the listing of the Shares on the Stock Exchange are no longer warranted and cannot be justified.

Since LSHK already owns approximately 65.1 per cent. of the Company as at the Latest Practicable Date, the Directors believe that it is unlikely that the minority Shareholders will receive any other offer to acquire the Shares from a third party without the approval of LSHK. In addition,

# LETTER FROM ACCESS CAPITAL

Shareholders should note that no discussions have taken place (or are taking place) with any third party regarding the disposal of any of the Shares held by LSHK and LSHK has no intention of discontinuing the Company's businesses.

Hence, the directors of LSHK believe that the Proposal provides an excellent opportunity for all the minority Shareholders to realise their investment at a cash price substantially above the levels at which the Shares have been consistently traded in the past four years (as set out in section 3(a) below).

### 3. The Scheme

#### (a) *Share prices*

The following table sets out the monthly highest, lowest and average closing prices and the closing price of the Shares on the last trading day of each month for the period commencing from 28 September 2001 and up to and including the Latest Practicable Date.

Month	Closing price per Share			Closing price per Share on the last trading day of that month HK\$
	Highest	Lowest	Average	
	HK\$	HK\$	HK\$	
<i>2001</i>				
28 September	—	—	—	1.700
October	1.800	1.670	1.754	1.700
November	1.920	1.660	1.746	1.920
December	2.150	1.940	2.026	2.000
<i>2002</i>				
January	2.300	1.950	2.119	2.175
February	2.350	2.150	2.209	2.225
March	2.250	2.125	2.210	2.200
2 to 4 April	Suspended			
8 to 30 April ( <i>Note</i> )	2.825	2.750	2.803	2.825
2 May	—	—	—	2.825

*Note:* From 8 April 2002 (the first trading day immediately after publication of the Announcement) to 30 April 2002.

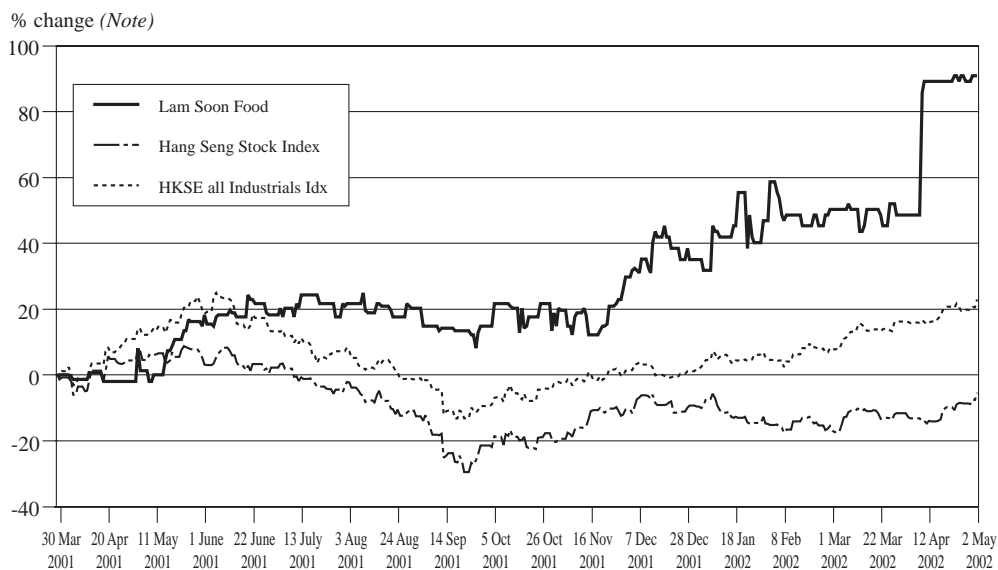
We note from the above table that the highest and lowest closing prices per Share during the six months prior to the publication of the Announcement were HK\$2.350 (on 1 February 2002) and HK\$1.660 (on 7 November 2001) respectively. The cancellation price of HK\$2.90 per Share represents a premium of approximately 23.4 per cent. to such highest closing price per Share and a premium of approximately 74.7 per cent. to such lowest closing price per Share during the aforesaid period.

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In addition, the cancellation price of HK\$2.90 per Share represents:

- a premium of approximately 2.7 per cent. over the closing price of HK\$2.825 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- a premium of approximately 31.8 per cent. over the closing price of HK\$2.200 per Share as quoted on the Stock Exchange on 28 March 2002;
- a premium of approximately 30.6 per cent. over the average closing price of approximately HK\$2.220 per Share based on the daily closing prices as quoted on the Stock Exchange over the five trading days up to and including 28 March 2002;
- a premium of approximately 30.6 per cent. over the average closing price of approximately HK\$2.220 per Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including 28 March 2002;
- a premium of approximately 33.5 per cent. over the average closing price of approximately HK\$2.173 per Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including 28 March 2002; and
- a premium of approximately 51.0 per cent. over the average closing price of approximately HK\$1.920 per Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including 28 March 2002.

The following chart shows the relative movements of the closing price per Share, the Hang Seng Index and the HKSE All Industrial Index during the period from 28 March 2001 up to and including the Latest Practicable Date (both dates inclusive):

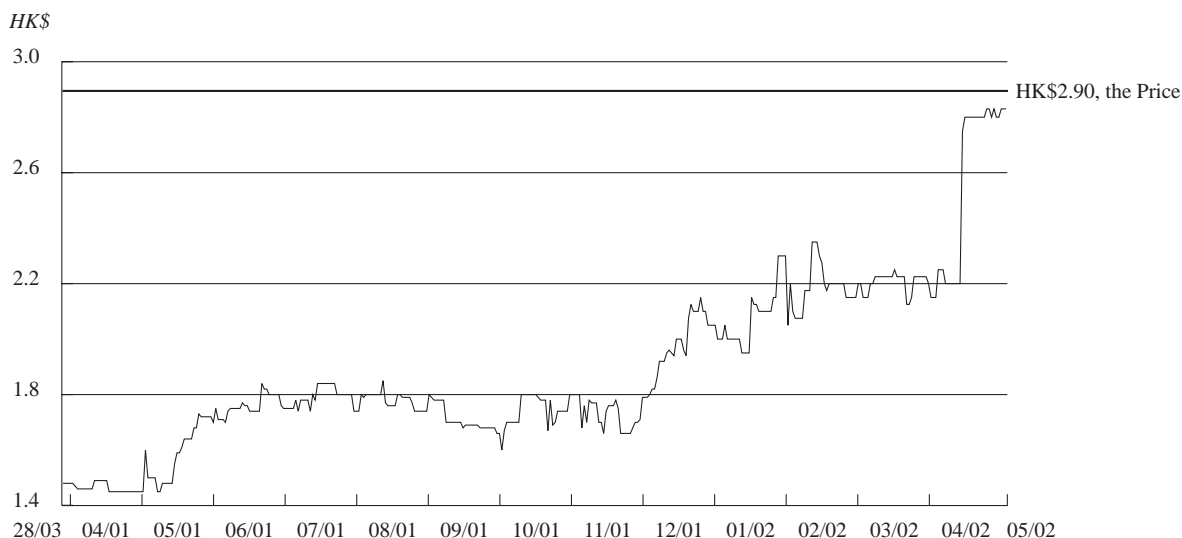


Note: The base figures are the closing price per Share, the Hang Seng Index and the HKSE All Industrial Index on 28 March 2001.

## LETTER FROM ACCESS CAPITAL

We note that the share price of the Company has performed better than the indices during the period between June 2001 and the Latest Practicable Date. We have discussed with the management of the Company the possible reasons for the trading performance of the Shares during the aforesaid period but could not identify any conclusive reason for such trading performance.

The graph below illustrates the daily closing price per Share quoted on the Stock Exchange from 28 March 2001 up to the Latest Practicable Date (both dates inclusive):



As illustrated in the above share price chart, the Shares were traded below the Price at all times during the period under review. Between 28 March 2001 and 30 November 2001, the Shares were traded between HK\$1.40 and HK\$1.92 per Share and rose sharply to and above HK\$2.00 in December 2001. Thereafter, the Shares were traded between HK\$1.95 and HK\$2.825.

Shareholders should note that since the publication of the Announcement and the resumption of trading of the Shares on 8 April 2002 and up to and including the Latest Practicable Date, the daily closing price rose to a level of HK\$2.80 and has remained at that level without exceeding the Price.

There is no assurance that the price of the Shares will remain at the current level if the Proposal lapses. In particular, Shareholders should note that it is unlikely that they will receive any other offer from a third party without LSHK's approval or support.

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## LETTER FROM ACCESS CAPITAL

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### (b) *Turnover*

The following table sets out the total number of Shares traded per month, such monthly trading volume as a percentage of the issued share capital of the Company and the Shares held by the public respectively for the period commencing from 28 September 2001 (being the trading date six months preceding 28 March 2002, the last trading date prior to the suspension of the trading of the Shares pending the issue of the Announcement) and up to and including the Latest Practicable Date:

Month	Number of Shares traded per month	Shares in issue	Shares traded as a percentage of issued share capital of the Company	Shares held by the public	Shares traded as a percentage of Shares held by the public
October 2001	372,000	127,904,201	0.29%	44,675,886	0.83%
November 2001	1,042,260	127,904,201	0.81%	44,675,886	2.33%
December 2001	624,850	127,904,201	0.49%	44,675,886	1.40%
January 2002	1,333,384	127,904,201	1.04%	44,675,886	2.98%
February 2002	1,021,220	127,904,201	0.80%	44,675,886	2.29%
March 2002	1,687,600	127,904,201	1.32%	44,675,886	3.78%
April 2002 ( <i>Note</i> )	8,039,300	127,904,201	6.29%	44,675,886	17.99%
2 May 2002	133,000	127,904,201	0.10%	44,675,886	0.30%

*Note:* From 8 April 2002 (the first trading day immediately after publication of the Announcement) to 30 April 2002.

The trading volume of the Shares during the period from October 2001 to March 2002 was relatively thin with the highest trading volume recorded in March 2002 (immediately prior to the Announcement), representing approximately 1.32 per cent. of the issued share capital of the Company or approximately 3.78 per cent. of the Shares held by the public. Since the Announcement and up to and including the Latest Practicable Date, the trading volume of the Shares has increased significantly and the total number of Shares traded in this period represents approximately 6.29 per cent. of the issued share capital of the Company or approximately 17.99 per cent. of the Shares held by the public. It is not certain whether the relatively active trading volume recorded in this period will or will not recur if the Proposal lapses.

As illustrated in the table above, the monthly trading volume of the Shares represents less than 4 per cent. of the Shares held by the public (except in April 2002). In our view, this level of liquidity may not be sufficient for the Scheme Shareholders to sell all their Shares in the market without selling at a substantial discount to the market price of the Shares.

### (c) *Financial information*

#### (i) *Net asset value*

In arriving at the net tangible asset value (“NTAV”) per Share for the purpose of our analysis, we have taken into account the 500,000,000 Convertible Preference Shares owned by LSHK. Under the terms of the Convertible Preference Shares, LSHK can exercise its right, at any time, to convert its holding of Convertible Preference Shares into new Shares. The Company also has the right, at its option, to redeem all or any of the

Convertible Preference Shares after 11 July 2002. Redemption of the Convertible Preference Shares in full would require a cash payment of HK\$370.0 million by the Company.

Neither the Company has indicated its intention to redeem the Convertible Preference Shares nor LSHK has expressed its intention to convert its holdings of Convertible Preference Shares into new Shares (up to the Latest Practicable Date). In order to account for the interest of the holder of the Convertible Preference Shares, we consider it appropriate to inform the Shareholders of all possible effects to the NTAV, hence to conduct our analysis on the basis that the Convertible Preference Shares are fully converted into Shares. On this basis, the corresponding adjusted NTAV per Share would be approximately HK\$4.64, based on 171,329,000 Shares (being the issued share capital of the Company as enlarged by 43,425,000 new Shares to be issued upon full conversion of the Convertible Preference Shares). It should be noted that if the Company redeems the Convertible Preference Shares in full, the net tangible assets of the Group will be reduced by HK\$370.0 million to approximately HK\$424.4 million, representing an adjusted NTAV per Share of approximately HK\$3.32.

(ii) *Proforma unaudited consolidated net tangible assets*

As stated in the paragraph headed “Proforma unaudited consolidated net tangible assets of the Group” in Appendix I of the Scheme Document, based on the audited consolidated net tangible assets of the Group as at 31 December 2001 and adjusted for the surplus arising from the valuation of properties, property interests and plants of the Group on 31 March 2002, the proforma net tangible assets of the Group were approximately HK\$806.0 million or approximately HK\$6.11 on a per share basis. Accordingly, the Price represents a discount to the proforma NTAV per Share (without taking into account of the full conversion of the Convertible Preference Shares) of approximately 52.5 per cent. However, the discount would reduce to approximately 38.3 per cent. based on the aforesaid proforma NTAV per Share of approximately HK\$4.70 (which assumes full conversion of the Convertible Preference Shares).

(iii) *Adjusted consolidated net asset value*

As stated in the paragraph headed “Net tangible assets” in the “Explanatory Statement” of the Scheme Document, as at 31 December 2001, the audited NTAV per Share was approximately HK\$6.02. Accordingly, the Price represents a discount to the NTAV per Share (that is, without taking into account of the full conversion of the Convertible Preference Shares) of approximately 51.8 per cent. However, the discount would reduce to approximately 37.5 per cent. (“NTA Discount”) based on the aforesaid adjusted NTAV per Share of approximately HK\$4.64 (which assumes full conversion of the Convertible Preference Shares).

The consolidated turnover and total assets of LSHK for the year ended 31 December 2001 were approximately HK\$1,663 million and HK\$1,853 million respectively. We have noted that the consolidated turnover and total assets of LSF of approximately HK\$1,596 million and HK\$1,735 million respectively for the year ended 31 December 2001 represent over 90 per cent. of the corresponding respective figures of LSHK for the same period. The closing price per share of LSHK of HK\$2.00 as at 28 March 2002 (the date immediately prior to the suspension of trading in the shares of LSHK pending the release of the announcement in relation to the Proposal on 8 April 2002) represented a discount of

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approximately 36.7 per cent. to its audited consolidated NTAV per share of HK\$3.16. Similarly, the above-mentioned NTA Discount is calculated to be approximately 37.5 per cent..

In addition to the above, we have also compared the NTA Discount under the Proposal with the relevant discount of certain recent privatisation precedents in Hong Kong (which have all been successfully completed) as set out under paragraph (d) (i) below. As the Company is principally engaged in the manufacturing and trading of food products, we have excluded companies whose principal business are in trading activities from the aforesaid comparison. We note that the discount of the Price to the NTAV and the NTA Discount under the Proposal are in line with those recent privatisations which average approximately 57.5 per cent..

#### (iv) *Earnings*

A summary of the audited consolidated results of the Group for the five years ended 31 December 2001 is set out in Appendix I to the Scheme Document.

It should be noted that the Group incurred net losses in four out of the last five financial years. The Directors believe that the principal reason leading to the sustained losses was the overall difficult operating environment faced by the Group. In addition, the substantial net loss recorded in the financial year ended 31 December 2001 was principally due to the provision for a non-recurrent item of approximately HK\$370.1 million in respect of an impairment to the carrying value of its packaging business and other assets.

As mentioned above, the directors of LSHK believe that although the recent accession of China as a member of the World Trade Organisation will offer long-term growth prospects in the food and agricultural sector, the accession will also increase the level of competition in that market. Additionally, under current economic conditions, the directors of LSHK believe that the prospects of the Company's packaging business will continue to be challenging.

We have identified four listed companies (the "Peers") which are engaged in the manufacture and distribution of edible oil and/or food products. Set out below is a comparison of certain key earnings-related ratios (i.e. price to earnings ratio ("PER"), enterprise value (that is, market capitalisation plus net debt) to earnings before interest, taxation, depreciation and amortisation ("EV/EBITDA") and price to book value per Share ratio ("P/BV")) which are typically used as valuation benchmarks for food manufacturing and distribution business for the Peers against the valuation attributed to the Company under the terms of the Proposal:

As at the Latest Practicable Date	Market capitalisation HK\$ million (Note 1)	PER	EV/ EBITDA	P/BV
<i>Peers (Notes 2 to 5)</i>				
Green's Food Limited (Note 6)	172.5	—	5.77	0.65
Hop Hing Holdings Limited	110.5	13.50	7.32	0.20
PT Indofood Sukes Mak TBK	8,246.5	12.80	5.69	3.14
Samyang Corporation	1,618.3	3.22	5.58	0.31
Average	2,537.0	9.84	6.09	1.08
High	8,246.5	13.50	7.32	3.14
Low	110.5	3.22	5.58	0.20
<b>The Company (Note 6)</b>	<b>361.3</b>	<b>—</b>	<b>6.70</b>	<b>0.45</b>

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*Notes:*

1. The market capitalisations are calculated based on HK\$ or its equivalent as quoted on the Latest Practicable Date, except for the Company where market capitalisation is based on the Price. The EV and BV per Share of the Company as stated in the audited financial statements of the Group for the year ended 31 December 2001 were HK\$695.21 million and HK\$6.29 respectively.
2. Green's Food Limited, a company listed on Australian Stock Exchange, which manufactures and distributes food products, including edible oil, throughout Australia.
3. Hop Hing Holdings Limited, a company listed on the Main Board of the Stock Exchange, which manufactures and distributes edible oil, in Hong Kong and the PRC.
4. PT Indofood Sukses Mak TBK, a company listed on Jakarta Stock Exchange, which manufactures and distributes a wide range of food products, including edible oil, in South East Asia.
5. Samyang Corporation, a company listed on the Korea Stock Exchange, which manufactures and distributes a wide range of food products, including cooking oil, in Korea.
6. Both Green's Food Limited and the Company incurred losses during the financial year, hence no PER is available.

Since the Company incurred a net loss for the financial year ended 31 December 2001, no PER is available for comparison with the Peers. Apart from this, and based on the above table, it is noted that EV/EBITDA ratio of the Company under the terms of the Proposal is slightly higher than the average of the Peers whilst the P/BV ratio of the Company is lower than the average of the Peers (as PT Indofood Sukes Mak TBK has a substantially higher P/BV ratio of approximately 3.14 times which distorted the simple average of the Peers). If PT Indofood Sukes Mak TBK is excluded, the average P/BV of the Peers would be approximately 0.39 times. In view of the aforesaid analysis, we are of the view that the valuation of the Company under the terms of the Proposal falls within a reasonable range when compared with the Peers and is considered to be appropriate.

(v) *Dividends*

The Company has not paid any dividend in the last six years. It should be noted that under the terms of the Convertible Preference Shares, the Company is required to pay the holders of the Convertible Preference Shares a dividend equivalent to five per cent. on its aggregate subscription price of HK\$370 million in priority to any payment of dividend to the Shareholders. On this basis, the relevant dividend for the Convertible Preference Shares would be HK\$18.5 million for any relevant year. Such distribution restriction would only be completely eliminated in the event of full conversion of the Convertible Preference Shares by LSHK or full redemption by the Company which would require a cash repayment of HK\$370 million by the Company. As at the Latest Practicable Date, neither the Company has indicated its intention to redeem the Convertible Preference Shares nor LSHK has expressed its intention to convert its holdings of Convertible Preference Shares into new Shares.

Given the recent financial performance of the Group, the difficult operating environment as described in the "Letter from the Chairman", and the above-mentioned obligation to pay a dividend (if any) to the holder of the Convertible Preference Shares in



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priority to any payment of dividend to the Shareholders, we are advised by the Directors that it is uncertain as to when the Company will be in a position to resume payment of a dividend to Shareholders.

(d) *Other considerations*

(i) *Privatisation precedents*

We have reviewed recent successfully completed privatisation proposals (excluding companies whose principal business are in trading activities) in Hong Kong and summarise below the key statistics of the relevant precedents:

Company	Premium/(discount) over/to pre-announcement average closing share price							Premium/ (discount) over/to Audited NTAV per share
	1 day	5 days	10 days	30 days	60 days	90 days	180 days	
	%	%	%	%	%	%	%	%
IMC Holdings Limited	6.0	8.8	14.3	24.2	28.1	31.6	35.7	(58.0)
Evergo China Limited	63.6	72.1	72.7	65.4	60.2	71.7	81.7	(79.6)
The Mingly Corp. Ltd.	29.6	39.2	45.8	55.8	55.3	41.7	7.9	(41.8)
Wah Kwong Shipping Limited	17.7	17.7	18.2	23.0	32.4	35.2	41.1	(50.6)
Minimum	6.0	8.8	14.3	23.0	28.1	31.6	7.9	(79.6)
Median	23.7	28.5	32.0	40.0	43.9	38.5	38.4	(54.3)
Maximum	63.6	72.1	72.7	65.4	60.2	71.7	81.7	(41.8)
<b>Average</b>	<b>29.2</b>	<b>34.4</b>	<b>37.8</b>	<b>42.1</b>	<b>44.0</b>	<b>45.1</b>	<b>41.6</b>	<b>(57.5)</b>
<b>The Proposal</b>	<b>31.8</b>	<b>30.6</b>	<b>30.6</b>	<b>31.7</b>	<b>33.5</b>	<b>38.8</b>	<b>51.0</b>	<b>(51.8)</b> <i>(Note)</i>

*Note:*

Assuming full conversion of the Convertible Preference Shares in issue, the Price represents a discount of approximately 37.5 per cent. to the adjusted NTAV per Share.

We note that the discounts of the Price to the audited NTAV and adjusted NTAV as described in paragraph (c)(ii) above are in line with the discounts to audited NTAV for the above recent privatisation precedents which have an average of about 57.5 per cent. We also note that the premium of the Price to pre-announcement closing price of the Shares is within the range of those for the other privatisation precedents. On this basis, we consider the Price to be acceptable from the Company's perspective.

(ii) *Intention of LSHK with respect to its interest in the Company*

As stated in the "Explanatory Statement", no discussions have taken place (or are taking place) with any third party regarding the disposal of any of the Shares held by LSHK and LSHK has no intention of discontinuing the Company's business.

In view of the above, it is reasonable to conclude that it is unlikely that the Shareholders will receive any other offer from a third party without LSHK's approval or support for such an offer.

### RECOMMENDATION

#### (a) The Scheme Shares

We have considered the above principal factors and reasons and, in particular, taken into account the factors that in arriving at our opinion:

- the background of, and the reasons for, the Proposal as set out in the “Explanatory Statement”. We have considered the view expressed concerning the difficult operating environment and uncertain economic outlook facing LSF and that following the entry of China to the World Trade Organisation, competition will intensify in the food and agricultural industries, and the Directors’ belief that the prospects of the Company’s packaging business will continue to be challenging;
- the lack of investors’ interest in the Shares;
- the premiums of the Price over the list of reference prices for comparison as set out in paragraph 3(a) above;
- the Price represents a NTA Discount of approximately 37.5 per cent. (assuming full conversion of the Convertible Preference Shares) as compared with the discount of approximately 36.7 per cent. which the closing price per LSHK Share on 28 March 2002 represents to LSHK’s audited NTAV as at 31 December 2001;
- the Price represents a NTA Discount (assuming no conversion of the Convertible Preference Shares) of approximately 51.8 per cent, which falls within the range of the corresponding discounts to NTAV of the recent privatisation precedents discussed in paragraph 3(d) above;
- the Price represents a historical EV/EBITDA multiple of approximately 6.70 times, which is higher than the corresponding Peer average of approximately 6.09 times discussed in paragraph 3(c)above;
- the Company has incurred net losses in four out of the last five financial years ended 31 December 2001;
- the Company has not paid any dividends in the last six years and the restrictions on the Company to pay dividends to Shareholders as discussed in paragraph 3(c)(iv) above; and
- the stated intention of LSHK to continue to hold its investment in the Company on a long-term basis and the absence of any alternative offer which is unlikely to be successful without the approval or support of LSHK.

Having considered the above, we believe the terms of the Proposal to be fair and reasonable so far as the Independent Shareholders are concerned and advise the Scheme Shareholders to accept the Proposal or, if the market price of the Shares (net of commissions) exceeds the Price, to sell the Shares in the market. Accordingly, we advise the Independent Shareholder to vote in favour of the relevant resolutions which will be proposed at the respective Court Meeting and Special General Meeting to approve the Proposal and the Scheme.

**(b) The proposal for the Share Options**

In assessing the proposal for the Share Options, we have also taken into account the principal factors and reasons which we have considered under the Scheme and, in addition, we note:

- that the option exercise price is out of money;
- the length of the exercisable period of the Share Options (with an expiry period between 7 November 2003 and 7 May 2005); and
- under the terms of the Share Option Scheme and as a result of the Proposal, all Shares Options will conditionally lapse and will cease to be exercisable after 21 May 2002 subject to the Scheme becoming effective.

Accordingly, we consider that the basis for arriving at the proposal for the outstanding Share Options to be appropriate.

On the basis of the above reasons and factors, we consider the Share Options Proposal to be fair and reasonable and recommend that the Share Options Holders accept the Proposal. Share Options Holders should note that the Share Options are not transferable. Unlike the Shareholders, who may be able to sell their Shares in the market, if the market price of the Shares (net of commissions) is higher than the Price, Share Options Holders would have less flexibility in pursuing this strategy as they would need to first exercise their Share Options before they can contemplate selling their Shares in the market.

Yours faithfully,  
For and on behalf of  
**ACCESS CAPITAL LIMITED**  
**Jeanny Leung**  
*Managing Director*

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# EXPLANATORY STATEMENT

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*This explanatory statement constitutes the statement required under Section 100 of the Companies Act.*

## SCHEME OF ARRANGEMENT TO CANCEL ALL THE SHARES OWNED BY THE SCHEME SHAREHOLDERS

### INTRODUCTION

It was announced on 4 April 2002 that LSHK had requested the Company to put forward the Proposal to the Scheme Shareholders. LSHK proposes that all Scheme Shares will be cancelled in exchange for HK\$2.90 in cash for each Scheme Share.

The purpose of this Explanatory Statement is to explain the terms and effects of the Proposal, and to give Shareholders other relevant information.

A letter from the Chairman is set out on pages 6 to 10 of this document. A letter of advice from Access Capital in connection with the Proposal is set out on pages 11 to 23 of this document. The Scheme is set out on pages 108 to 111 of this document.

### TERMS OF THE PROPOSAL

It is proposed that subject to the fulfilment or waiver (as applicable) of the conditions of the Proposal as described in the section headed “Conditions of the Proposal” below, the Proposal will be implemented by way of the Scheme, which will involve the cancellation of all the Scheme Shares and a reduction of the issued share capital of the Company under Section 46 of the Companies Act. The Scheme also provides that, in consideration thereof, each Scheme Shareholder will be entitled to receive from LSHK the Price, being HK\$2.90 in cash for every Scheme Share held.

As at the Latest Practicable Date, there were 127,904,201 Shares in issue and the Scheme Shareholders were interested in 44,675,886 Shares, representing approximately 34.9 per cent. of the issued capital of the Company. At the Price of HK\$2.90, the Proposal values the entire issued capital of the Company at approximately HK\$370.9 million. The maximum amount of cash required in order to effect the Proposal is approximately HK\$130.1 million (assuming that all the outstanding Share Options have been exercised), which will be funded out of the internal resources of LSHK reserved for the purpose of the Proposal. Rothschild, the financial adviser to LSHK in connection with the Proposal, has confirmed that it is satisfied that sufficient financial resources are available to LSHK for the implementation of the Proposal.

Apart from the Shares, the Convertible Preference Shares and the Share Options, the Company did not have any warrants, options, convertible securities or other securities in issue as at the Latest Practicable Date.

### CONDITIONS OF THE PROPOSAL

The Scheme will become effective and binding on the Company and all Shareholders, subject to the fulfilment or waiver (as applicable) of the following conditions:

- (a) the approval of the Scheme by a majority in number representing not less than three-fourths in value of the Independent Shareholders at the Court Meeting, provided that:
  - (i) the Scheme is approved by at least 75 per cent. of the votes attaching to those Shares that are voted either in person or by proxy at the Court Meeting; and

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## EXPLANATORY STATEMENT

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- (ii) the number of votes cast against the resolution to approve the Scheme at the Court Meeting is not more than 10 per cent. of the votes attaching to all of the Shares held by the Independent Shareholders;
- (b) the passing of a special resolution to approve and give effect to the Scheme (including the cancellation of the Scheme Shares and the reduction of the share capital of the Company);
- (c) the sanction of the Scheme (with or without modification(s)) by the Supreme Court and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Supreme Court for registration;
- (d) compliance with the procedural requirements of Section 46 of the Companies Act in relation to the reduction of the issued share capital of the Company;
- (e) all Authorisations in connection with the Proposal having been obtained or made from, with or by (as the case may be) the Relevant Authorities, in Bermuda and/or Hong Kong and/or any other relevant jurisdictions;
- (f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Scheme becomes effective; and
- (g) all necessary consents which may be required under any existing contractual obligations of the Company being obtained.

Assuming that the above conditions are fulfilled or waived (as applicable), it is expected that the Scheme will become effective on the Effective Date, which is scheduled to be Thursday, 20 June 2002 (Bermuda time), equivalent to Friday, 21 June 2002 (Hong Kong time). Further press announcement(s) will be made giving details of the results of the Court Meeting and the Special General Meeting, the last day for dealing in the Shares, the Effective Date and the date of withdrawal of the listing of the Shares on the Stock Exchange.

### **REASONS FOR AND BENEFITS OF THE PROPOSAL**

The continued difficult operating environment and uncertain economic outlook in the region caused the Group to report an audited net loss attributable to Shareholders of approximately HK\$369.1 million for the financial year ended 31 December 2001. This included a provision of approximately HK\$370.1 million in respect of an impairment to the carrying value of its packaging business and other assets. These results follow losses made in each of the preceding two years. The Company has paid no dividends to the Shareholders in the last six years. Whilst the directors of LSHK believe that the entry of China to the World Trade Organisation offers long-term growth prospects in the food and agricultural industries, it will also increase the level of competition in the market. Additionally, the Directors believe the prospects of the Company's packaging business will continue to be challenging.

The directors of LSHK are of the view that the Company's business will, after the Scheme becomes effective, be able to operate more effectively and efficiently without additional complexity and the cost of the Company being a stand-alone listed company, and be better suited to take on the challenge of the post

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## EXPLANATORY STATEMENT

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World Trade Organisation era as well as to take advantage of the new opportunities ahead. As a wholly-owned subsidiary of LSHK, it will be possible to manage the Company in a more integrated manner, with greater flexibility to streamline resources and consolidate operations with those of LSHK. The directors of LSHK believe that the Proposal will allow the Group to achieve greater efficiency and enhance its competitiveness in this highly challenging market environment.

The investment community has had a low level of interest in the Company which is reflected by the low level of trading volume in the Shares. The average daily trading volume of the Shares in the past 180 trading days up to and including 28 March 2002 has been less than 50,000 Shares. During the same period, the Shares have been consistently traded at prices which the directors of LSHK believe do not reflect the value of the Company. The average daily trading volume of the Shares in the past 180 trading days up to and including the Latest Practicable Date is approximately 80,000 Shares.

The Company has not raised any funds from the equity capital markets after 1997 and the Company has no intention to seek new funds from the equity capital markets in the foreseeable future given the valuation accorded to the Company and the low liquidity of the Shares. Consequently, having considered all the above factors, the directors of LSHK are of the view that the costs associated with the maintenance of the listing of the Shares on the Stock Exchange and the Company's publicly listed status are no longer warranted.

Since LSHK already owns approximately 65.1 per cent. of the Company, the Directors believe that it is unlikely that the minority Shareholders will receive any other offer to acquire the Shares from a third party without the approval of LSHK. In addition, Shareholders should note that no discussions have taken place (or are taking place) with any third party regarding the disposal of any of the Shares held by LSHK and LSHK has no intention of discontinuing the Company's businesses.

Having considered all the above factors, the directors of LSHK believe that the Proposal represents an opportunity for all the minority Shareholders to realise their entire investment at a cash price substantially above the levels at which the Shares have consistently been traded in the past four years and which is also significantly in excess of any price they might obtain under current market conditions if the Proposal does not take place.

### **FUTURE INTENTIONS**

Upon the approval of the Scheme by the Independent Shareholders at the Court Meeting, the passing of the special resolution to implement and give effect to the Proposal at the Special General Meeting and the sanction of the Scheme by the Supreme Court becoming effective, the Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange. In the event that the Proposal is not approved or lapses, the Company will maintain the listing of the Shares on the Stock Exchange.

It is the intention of LSHK to maintain the existing businesses of the Company upon successful privatisation of the Company. LSHK does not intend to introduce any major changes to the existing operating and management structure of the Group, or to discontinue the employment of any employees of the Group, or to redeploy any material fixed assets of the Group, as a result of the implementation of the Proposal. Accordingly, the Directors believe that there will be no material change to the existing business and employment of the existing employees of the Group as a result of the implementation of the Proposal.

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## EFFECTS OF THE PROPOSAL

### (a) Shareholding Structure

The table below sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after the Scheme becoming effective and the withdrawal of listing of the Shares on the Stock Exchange:

Shareholders	As at the Latest Practicable Date		Immediately after the Scheme becoming effective and the withdrawal of listing of the Shares on the Stock Exchange	
	No. of Shares	%	No. of Shares	%
LSHK	83,228,315	65.1	83,228,315	100
The Excluded Persons and concert parties	4,009,658	3.1	0	0
Independent Shareholders	<u>40,666,228</u>	<u>31.8</u>	<u>0</u>	<u>0</u>
Total	<u>127,904,201</u>	<u>100</u>	<u>83,228,315</u>	<u>100</u>

Following the effective date of the Scheme and the withdrawal of listing of the Shares on the Stock Exchange, the Company will become a wholly-owned subsidiary of LSHK.

### (b) Share value

The Price represents:

- a premium of approximately 2.7 per cent. over the closing price of HK\$2.825 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 31.8 per cent. over the closing price of HK\$2.200 per Share as quoted on the Stock Exchange on 28 March 2002 (being the last trading day prior to the suspension of trading in the Shares from 9:30 a.m. on 2 April 2002, pending the issue of the Announcement);
- a premium of approximately 30.6 per cent. over the average closing price of approximately HK\$2.220 per Share based on the daily closing prices as quoted on the Stock Exchange over the five trading days up to and including 28 March 2002;
- a premium of approximately 30.6 per cent. over the average closing price of approximately HK\$2.220 per Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including 28 March 2002;
- a premium of approximately 33.5 per cent. over the average closing price of approximately HK\$2.173 per Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including 28 March 2002; and

## EXPLANATORY STATEMENT

- **a premium of approximately 51.0 per cent.** over the average closing price of approximately HK\$1.920 per Share based on the daily closing prices as quoted on the Stock Exchange over the 180 trading days up to and including 28 March 2002.

The historical share price information on the Shares is set out in Appendix IV.

As at the Latest Practicable Date, there were 127,904,201 Shares in issue. At the Price of HK\$2.90, the Proposal values the entire issued capital of the Company at approximately HK\$370.9 million.

Apart from the Shares, the Convertible Preference Shares and the Share Options, the Company did not have any warrants, options, convertible securities or other securities in issue as at the Latest Practicable Date.

### (c) Net tangible assets

As at 31 December 2001, the audited consolidated net tangible assets of the Group amounted to approximately HK\$794.4 million, or approximately HK\$6.02 per Share. The Price represents approximately 51.8 per cent. discount to the audited net tangible asset value per Share. The adjusted consolidated net tangible asset value per Share is approximately HK\$4.64, assuming full conversion of the Convertible Preference Shares in issue as at the Latest Practicable Date. Accordingly, the Price represents approximately 37.5 per cent. discount to the aforesaid adjusted net consolidated net tangible asset value per Share. The Price also represents a discount of approximately 52.5 per cent. and 38.3 per cent. to the proforma net tangible asset value per Share and the adjusted proforma net tangible asset value per Share respectively as referred to in the section headed “Proforma Unaudited Consolidated Net Tangible Assets of the Group” in Appendix I.

## INFORMATION ON THE GROUP

The Company is an investment holding company incorporated in Bermuda with limited liability and its shares have been listed on the Stock Exchange since July 1991. Its subsidiaries are principally engaged in the manufacturing and trading of food products such as flour products and edible oils, as well as detergent and packaging products. The summary of the audited consolidated income statement of the Group for the two financial years ended 31 December 2001 extracted from the published annual report of the Company for the financial year ended 31 December 2001 is set out below:

	<b>Year ended 31 December 2001</b>	<b>Year ended 31 December 2000</b>
	<i>HK\$' million</i>	<i>HK\$' million</i>
Turnover	1,596.0	1,565.8
Operating loss	375.3	74.1
Loss from ordinary activities before taxation	369.6	70.8
Loss after taxation (but before minority interests)	376.9	78.1
Loss attributable to Shareholders	369.1	69.7

As at 31 December 2001, the audited consolidated net tangible assets of the Group were approximately HK\$794.4 million.

Your attention is drawn to Appendix I which sets out the financial information of the Group.



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## EXPLANATORY STATEMENT

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### INFORMATION ON LSHK

LSHK is an investment holding company incorporated in Hong Kong with limited liability and its shares are listed on the Stock Exchange. Its subsidiaries are principally engaged in the manufacturing and trading of food products such as flour products, edible oils and frozen food, as well as detergent and packaging products. LSHK's ultimate controlling shareholder is Guinvest which owned approximately 38.9 per cent. of the issued share capital of LSHK as at the Latest Practicable Date.

### INFORMATION RELATING TO LSHK AND THE EXCLUDED PERSONS

As at the Latest Practicable Date, LSHK was beneficially interested in 83,228,315 Shares, representing approximately 65.1 per cent. of the issued share capital of the Company. Shares held by LSHK will not form part of the Scheme Shares. Accordingly, LSHK is not entitled to vote and its concert parties will not be voting at the Court Meeting. Under the Takeovers Code, Messrs. WHANG Tar Choung, TSAO Chen, James, WHANG Sun Tze, LO Kwong Chi, Clement and HO King Cheung, who together with their Associates were interested in an aggregate of 4,009,658 Shares, representing approximately 3.1 per cent. of the issued share capital of the Company, are presumed to be persons acting in concert with LSHK and no votes will be cast at the Court Meeting in respect of the Shares in which the aforesaid directors of LSHK and their concert parties are interested.

LSHK and the Excluded Persons have confirmed that if the Scheme is approved at the Court Meeting, they and their Associates will vote in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme.

### SHARE CERTIFICATES, DEALINGS AND LISTING

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and extinguished, and all the certificates representing the Scheme Shares will accordingly cease to have effect as documents or evidence of title.

Upon the approval of the Scheme by the Independent Shareholders at the Court Meeting, the passing of the special resolution to implement and give effect to the Proposal at the Special General Meeting and the sanction of the Scheme by the Supreme Court becoming effective, the Company will apply to the Stock Exchange for the withdrawal of the listing of the Shares on the Stock Exchange. Dealings in the Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Wednesday, 12 June 2002, and the listing of the Shares on the Stock Exchange is expected to be withdrawn at 9:30 a.m. on Monday, 24 June 2002.

Shareholders will be notified of the exact dates on which the Scheme and the withdrawal of the listing of the Shares on the Stock Exchange will become effective by way of press announcement(s).

If the Scheme is not approved or lapses, it is intended that the listing of the Shares on the Stock Exchange will be maintained.

### REGISTRATION AND PAYMENT

Upon the Scheme becoming effective, cheques for cash entitlements under the Scheme will be sent to the Scheme Shareholders whose names appear on the register of members of the Company on the Record Date. Under the terms of the Share Option Scheme and as a result of the Proposal, all Share Options will conditionally lapse and cease to be exercisable on 21 May 2002, subject to the Scheme becoming effective. If the Scheme does not become effective, such Share Options would not lapse and would again be exercisable. Settlement of the cash entitlements to which any Scheme Shareholder or Share Option Holder

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## EXPLANATORY STATEMENT

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are entitled under the Scheme and the Share Option Proposal will be implemented in full in accordance with their respective terms without regard to any lien, right of set-off, counterclaim or other analogous right to which LSHK may otherwise be, or claim to be, entitled against such Scheme Shareholder or Share Option Holder.

It is proposed that the register of members of the Company will be closed after 4:00 p.m. on Monday, 17 June 2002 (or such other date as may be notified to the Shareholders by way of press announcement(s)) in order to establish entitlements under the Scheme. Scheme Shareholders should ensure that their Shares are lodged for registration in their names or in the names of their nominees before the register of members of the Company is closed. The branch share registrars of the Company is Central Registration Hong Kong Limited, Shop 1712-1716, 17/F., Hopewell Centre, No. 183 Queen's Road East, Hong Kong.

Assuming that the Scheme becomes effective on Thursday, 20 June 2002 (Bermuda time), cheques for cash entitlements under the Scheme are expected to be despatched on or before Monday, 24 June 2002. On the day being six calendar months after the posting of such cheques, LSHK shall have the right to cancel payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date make payments thereout of the sums (together with interest thereon in accordance with paragraph 4(e) of the Scheme) payable pursuant to paragraph 2 of the Scheme to persons who satisfy the Company that they are respectively entitled thereto and the cheques referred to in paragraph 4(e) of the Scheme of which they are payees have not been cashed.

On the expiry of the six years from the Effective Date, LSHK shall be released from any further obligation to make any payments under the Scheme and the Company shall thereafter transfer to LSHK the balance (if any) of the sums then standing to the credit of the deposit account as referred to in paragraph 4(f) of the Scheme, including accrued interest, if applicable, subject to the deduction of interest tax or any withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.

In the absence of any specific instructions to the contrary received in writing by the branch share registrars of the Company in Hong Kong (see above for its name and address), cheques will be sent to the persons entitled thereto at their respective addresses or, in the case of the joint holders, to the registered address of that joint holder whose name stands first in such register in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and neither LSHK and the Company will be liable for any loss or delay in transmission.

### **COURT MEETING AND SPECIAL GENERAL MEETING**

In accordance with the direction of the Supreme Court, the Court Meeting has been convened for the purpose of considering and, if thought fit, passing the appropriate resolutions to approve the Scheme (with or without modification(s)). LSHK is not entitled to vote and, the Excluded Persons and their respective concert parties who, as at the Latest Practicable Date, were interested in 87,237,973 Shares, representing approximately 68.2 per cent. of the issued share capital of the Company, will not vote at the Court Meeting.

The Special General Meeting has been convened for the purpose of considering and, if thought fit, passing a special resolution to implement and give effect to the Proposal. All Shareholders will be entitled to attend and vote on such special resolution at the Special General Meeting. LSHK and the Excluded Persons have confirmed that if the Scheme is approved at the Court Meeting, all the Shares held by them will be voted in favour of such special resolution at the Special General Meeting.

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## EXPLANATORY STATEMENT

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Notices of the Court Meeting and the Special General Meeting are set out on pages 112 to 115 of this document. The Court Meeting and the Special General Meeting will be held on Wednesday, 29 May 2002 at the respective times specified in such notices at 3/F., Lam Soon Building, 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong.

### **ACTIONS TO BE TAKEN**

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the Special General Meeting are enclosed with this document.

Whether or not you are able to attend the Court Meeting and the Special General Meeting or any of them, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the Special General Meeting, in accordance with the instructions printed thereon, and to lodge them with the branch share registrars of the Company in Hong Kong, Central Registration Hong Kong Limited, Room 1901–1905, 19/F., Hopewell Centre, No. 183 Queen's Road East, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 10:00 a.m. on Monday, 27 May 2002. In order to be valid, the white form of proxy for use at the Special General Meeting should be lodged not later than 10:30 a.m. on Monday, 27 May 2002. Completion and return of a form of proxy for the Court Meeting and the Special General Meeting will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

### **RECOMMENDATIONS**

In the letter from Access Capital to the Independent Shareholders and the Share Option Holders as set out on pages 11 to 23 of this document, Access Capital states that it considers the terms of the Proposal and the Share Option Proposal to be fair and reasonable so far as the Independent Shareholders and the Share Option Holders are concerned, and advises the Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting and to vote in favour of the special resolution to implement and give effect to the Proposal at the Special General Meeting.

### **FURTHER INFORMATION**

Further information is set out in the appendices to, and elsewhere in, this document, all of which form part of this Explanatory Statement.

## 1. SHARE CAPITAL

The authorised and issued share capital of the Company at the Latest Practicable Date were as follows:

*HK\$'000*

*Authorised:*

185,000,000	Shares	185,000
500,000,000	Convertible Preference Shares	<u>25,000</u>
	Total	<u><u>210,000</u></u>

*Issued and fully paid:*

127,904,201	Shares	127,904
500,000,000	Convertible Preference Shares	<u>25,000</u>
	Total	<u><u>152,904</u></u>

All of these shares currently in issue rank pari passu in all respects with each other within the same class of shares, including, in particular, as to dividends, voting rights and capital. No part of the share capital of the Company is listed or dealt in any other stock exchange other than the Stock Exchange and no application has been made or is currently proposed or sought for the shares to be listed or dealt in any other stock exchange. No new shares have been issued since 31 December 2001 (the date to which the latest audited financial statements of Group were made up) and up to the Latest Practicable Date.

As at the Latest Practicable Date, the Company had granted Share Options in favour of its employees under the Share Option Scheme of which the Share Option Holders have rights to subscribe for 178,909 Shares with exercise prices ranging between HK\$14.66 and HK\$22.38 per Share with an expiry period between 7 November 2003 and 7 May 2005.

As at the Latest Practicable Date, save for the Share Options and Convertible Preference Shares, there were no other outstanding options, warrants or convertible securities of the Company.

## 2. FINANCIAL INFORMATION

## Summary of financial results for the five years ended 31 December 2001

The following is a summary of the audited consolidated income statement of the Group for the five years ended 31 December 2001.

	2001	2000	1999	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Results</b>					
Turnover	<u>1,596,038</u>	<u>1,565,755</u>	<u>1,640,817</u>	<u>2,098,682</u>	<u>2,235,600</u>
Operating profit before exceptional items, interest, taxation, depreciation and amortisation	<u>113,826</u>	<u>98,657</u>	<u>144,296</u>	<u>155,291</u>	<u>103,978</u>
Exceptional items	<u>(375,523)</u>	<u>(30,599)</u>	<u>(23,582)</u>	<u>8,540</u>	<u>(43,570)</u>
Operating (loss)/profit	(375,279)	(74,132)	(25,161)	16,815	(125,976)
Share of results of associates and a jointly controlled entity	<u>5,708</u>	<u>3,346</u>	<u>3,876</u>	<u>940</u>	<u>(1,205)</u>
(Loss)/profit from ordinary activities before taxation	(369,571)	(70,786)	(21,285)	17,755	(127,181)
Taxation	<u>(7,374)</u>	<u>(7,286)</u>	<u>(3,735)</u>	<u>(1,911)</u>	<u>(15,986)</u>
(Loss)/profit after taxation	(376,945)	(78,072)	(25,020)	15,844	(143,167)
Minority interests	<u>7,807</u>	<u>8,335</u>	<u>(1,814)</u>	<u>3,796</u>	<u>15,847</u>
(Loss)/profit attributable to shareholders	<u>(369,138)</u>	<u>(69,737)</u>	<u>(26,834)</u>	<u>19,640</u>	<u>(127,320)</u>
(Loss)/earnings per share					
Basic (HK\$)	<u>(2.89)</u>	<u>(0.54)</u>	<u>(0.21)</u>	<u>0.15</u>	<u>(1.57)</u>
<b>Assets and liabilities</b>					
Non-current assets	965,436	1,455,249	1,530,967	1,611,123	1,665,840
Net current (liabilities)/assets	(72,552)	88,893	218,346	(5,757)	139,728
Minority interests	(61,659)	(63,350)	(73,624)	(72,191)	(82,599)
Non-current liabilities	<u>(1,918)</u>	<u>(253,358)</u>	<u>(376,714)</u>	<u>(205,310)</u>	<u>(432,460)</u>
Shareholders' funds	<u>829,307</u>	<u>1,227,434</u>	<u>1,298,975</u>	<u>1,327,865</u>	<u>1,290,509</u>

**Consolidated income statement**

The following is a summary of the audited consolidated income statement of the Group for each of the two years ended 31 December 2001:

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Turnover	2	1,596,038	1,565,755
Cost of sales		<u>(1,296,793)</u>	<u>(1,315,135)</u>
Gross profit		299,245	250,620
Other income	3	14,962	22,437
Selling and distribution expenses		(140,346)	(126,194)
Administrative expenses		(119,146)	(118,650)
Other operating expenses		<u>(28,481)</u>	<u>(23,196)</u>
Profit from operations		26,234	5,017
Net interest expenses	4	(25,990)	(48,550)
Provision for contingent loss in respect of wheat quota		—	(23,600)
Loss on disposal of properties		(5,415)	—
Impairment			
— fixed assets		(355,814)	(6,999)
— goodwill		<u>(14,294)</u>	<u>—</u>
Operating loss	5	(375,279)	(74,132)
Share of results of associates		(63)	(1)
Share of results of a jointly controlled entity		<u>5,771</u>	<u>3,347</u>
Loss from ordinary activities before taxation		(369,571)	(70,786)
Taxation	8(b)	<u>(7,374)</u>	<u>(7,286)</u>
Loss after taxation		(376,945)	(78,072)
Minority interests		<u>7,807</u>	<u>8,335</u>
Loss attributable to shareholders	10	<u>(369,138)</u>	<u>(69,737)</u>
Loss per share	11		
Basic		<u>HK\$2.89</u>	<u>HK\$0.54</u>

## Consolidated balance sheet

Set out below is the audited consolidated balance sheet of the Group as at 31 December 2001 and 31 December 2000:

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12(a)	845,872	1,338,737
Intangible assets	13	34,925	36,830
Interest in associates	15	24,580	24,643
Interest in a jointly controlled entity	16	58,930	53,910
Club debentures		1,129	1,129
		965,436	1,455,249
<b>CURRENT ASSETS</b>			
Inventories	17	243,781	217,385
Debtors, deposits and prepayments	18	273,646	271,810
Bills receivable		28,024	38,163
Short-term investment		—	8,396
Other current assets	19	9,399	18,694
Deposits with financial institutions		61,980	99,627
Deposits with financial institutions — pledged		78,444	195,492
Cash and bank balances		74,596	95,850
		769,870	945,417
<b>CURRENT LIABILITIES</b>			
Bank loans, overdrafts and other borrowings	20	403,007	489,992
Creditors, deposits received and accruals	21	252,334	251,139
Bills payable		113,683	53,148
Other current liabilities	22	51,690	44,966
Tax payable		21,708	17,279
		842,422	856,524
<b>NET CURRENT (LIABILITIES)/ASSETS</b>		<u>(72,552)</u>	<u>88,893</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>892,884</u>	<u>1,544,142</u>
<b>REPRESENTING:</b>			
<b>SHARE CAPITAL</b>	23	152,904	152,904
<b>RESERVES</b>	24(a)	<u>676,403</u>	<u>1,074,530</u>
<b>SHAREHOLDERS' FUNDS</b>		829,307	1,227,434
<b>MINORITY INTERESTS</b>		61,659	63,350
<b>NON-CURRENT LIABILITIES</b>			
Bank loans and other liabilities	26	656	251,057
Deferred taxation	9(a)	1,262	2,301
		<u>1,918</u>	<u>253,358</u>
		<u>892,884</u>	<u>1,544,142</u>

**Balance sheet**

Set out below is the audited balance sheet of the Company as at 31 December 2001 and 31 December 2000:

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	12(b)	273	434
Interest in subsidiaries	14	1,317,973	1,422,476
Club debenture		684	684
		1,318,930	1,423,594
<b>CURRENT ASSETS</b>			
Other debtors, deposits and prepayments		1,490	3,350
Other current assets	19	20	1,501
Deposits with financial institutions		5,893	84,301
Cash and bank balances		17,954	9,684
		25,357	98,836
<b>CURRENT LIABILITIES</b>			
Bank loans, overdrafts and other borrowings	20	198,327	163,795
Other creditors, deposits received and accruals		1,632	1,575
Other current liabilities	22	30,070	23,711
		230,029	189,081
<b>NET CURRENT LIABILITIES</b>		<u>(204,672)</u>	<u>(90,245)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,114,258</u>	<u>1,333,349</u>
<b>REPRESENTING:</b>			
<b>SHARE CAPITAL</b>	23	152,904	152,904
<b>RESERVES</b>	24(b)	948,930	965,224
<b>CONTRIBUTED SURPLUS</b>	25	<u>12,424</u>	<u>12,424</u>
<b>SHAREHOLDERS' FUNDS</b>		1,114,258	1,130,552
<b>NON-CURRENT LIABILITIES</b>			
Bank loans and other liabilities	26	<u>—</u>	<u>202,797</u>
		<u>1,114,258</u>	<u>1,333,349</u>



**Consolidated cash flow statement***For the year ended 31 December 2001*

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	27	122,510	204,172
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		18,996	7,988
Interest paid		(42,601)	(66,060)
Dividend received		—	5,500
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		(23,605)	(52,572)
TAXATION			
Hong Kong profits tax paid		(169)	(391)
Overseas tax paid		(2,842)	(2,438)
TAX PAID		(3,011)	(2,829)
INVESTING ACTIVITIES			
Purchase of fixed assets		(10,950)	(21,889)
Net proceeds from disposal of fixed assets		21,040	214
Decrease/(increase) in deposits with financial institutions		116,996	(29,826)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES		127,086	(51,501)
NET CASH INFLOW BEFORE FINANCING		222,980	97,270

**Consolidated cash flow statement (continued)***For the year ended 31 December 2001*

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
NET CASH INFLOW BEFORE FINANCING		222,980	97,270
FINANCING ACTIVITIES	28		
Decrease in bank loans		(366,045)	(43,660)
(Decrease)/increase in other loans		(2,357)	9,421
Repayment to minority shareholders		—	(549)
NET CASH OUTFLOW FROM FINANCING		(368,402)	(34,788)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(145,422)	62,482
CASH AND CASH EQUIVALENTS AT 1ST JANUARY		143,056	80,486
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		(2,462)	88
CASH AND CASH EQUIVALENTS AT 31ST DECEMBER		(4,828)	143,056
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Short-term investment		—	8,396
Deposits with financial institutions		62,444	100,143
Cash and bank balances		74,596	95,850
Short-term bank loans and overdrafts		(96,125)	(54,059)
Other short-term loans		—	(7,155)
Bills payable		(45,743)	(119)
		(4,828)	143,056

**Consolidated statement of recognised gains and losses***For the year ended 31 December 2001*

	<i>Note</i>	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Exchange differences arising on translation of financial statements of overseas subsidiaries	24(a)	<u>(28,989)</u>	<u>(1,804)</u>
Net loss not recognised in the consolidated income statement		(28,989)	(1,804)
Loss for the year	24(a)	<u>(369,138)</u>	<u>(69,737)</u>
Total recognised losses		<u><u>(398,127)</u></u>	<u><u>(71,541)</u></u>

**Notes to the financial statements***Year ended 31 December 2001***1. PRINCIPAL ACCOUNTING POLICIES****(a) Basis of preparation**

These financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants (“HKSA”) and the disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. They have been prepared under the historical cost convention modified by the revaluation of certain properties as explained in the accounting policies set out below.

In the current year, the Group adopted the following SSAPs issued by the HKSA which are effective for accounting periods commencing on or after 1 January 2001:

SSAP 26	:	Segment reporting
SSAP 28	:	Provisions, contingent liabilities and contingent assets
SSAP 29	:	Intangible assets
SSAP 30	:	Business combinations
SSAP 31	:	Impairment of assets
SSAP 32	:	Consolidated financial statements and accounting for investments in subsidiaries

The effect of adopting these new standards is set out in the accounting policies below.

**(b) Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are dealt with in the consolidated income statement from the effective dates of acquisition or to the effective dates of disposal respectively. All significant intra-group transactions and balances have been eliminated on consolidation.

**(c) Revenue recognition**

Revenue from sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

Rental income from operating leases is recognised on a straight-line basis over the terms of the respective leases.

Interest income is accrued on a time proportion basis.

Income from management services, barge operation, advertising and promotion services are recognised at the time when the services are provided.

**(d) Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the market exchange rates ruling at the balance sheet date. Differences on foreign currency translation are dealt with in the income statement.

The financial statements of subsidiaries and associates denominated in foreign currencies are translated at the market exchange rates ruling at the balance sheet date. Exchange differences arising on such translation are dealt with in the exchange reserve.

**1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)****(e) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal management reporting, the Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified in Group's policy.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before inter-segment balances and inter-segment transactions are eliminated as part of the consolidation.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses.

**(f) Fixed assets and depreciation**

Fixed assets are stated at cost or valuation less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to the income statement in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditure have resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure are capitalised as an additional cost of the fixed asset.

No depreciation is provided in respect of land held on freehold. Depreciation on other fixed assets is calculated to write down their costs to their estimated residual values on a straight-line basis over their estimated useful lives at the following annual rates:

Leasehold land	5% or over the lease period
Buildings and leasehold improvements	1 <sup>2</sup> / <sub>3</sub> %–33 <sup>1</sup> / <sub>3</sub> %
Other fixed assets	5%–33 <sup>1</sup> / <sub>3</sub> %

**(g) Operating leases**

Assets held for operating leases are included in fixed assets and depreciated over their estimated useful lives as set out in Note 1(f) above. Rentals receivable or payable under operating leases are accounted for on a straight-line basis over the periods of the respective leases.

**(h) Capitalisation of borrowing costs**

Borrowing costs incurred in financing the purchase of leasehold land and construction of manufacturing plant including the purchase of related fixed assets prior to commercial operations are capitalised and included in the balance sheet as part of the cost of the fixed assets concerned.

All other borrowing costs are charged to the income statement in the year in which they are incurred.

**1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)****(i) Trademarks**

In prior years, trademarks were stated at cost and were not amortised. Provision was made for any diminution in value which was other than temporary in the opinion of the directors.

With effect from 1 January 2001, with the introduction of SSAP 29, the Group adopted an accounting policy to amortise the cost of trademarks on a straight-line basis over their estimated useful lives of not more than 20 years.

According to the transitional provision stated in SSAP 29, the Group has adopted the new accounting policy prospectively as it is impracticable to determine the amount relating to prior periods or to restate comparative information.

**(j) Subsidiaries**

A subsidiary is an enterprise over which the Company has control either directly or indirectly. Control is the power to govern the financial and operating policies of a company so as to obtain benefits from its activities.

Investments in subsidiaries are stated in the Company's balance sheet at cost less any identified impairment loss. Income from subsidiaries is recognised in the Company's financial statements on the basis of dividends declared by the subsidiaries.

**(k) Associates**

An associate is one, not being a subsidiary or a joint venture, in which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

Interest in associates is stated in the consolidated balance sheet at the Group's share of the net assets under the equity method of accounting, as reduced by any identified impairment loss. The results of the associates are included in the consolidated income statement to the extent of post-acquisition results attributable to the Group.

**(l) Jointly controlled entity**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and over which none of the participating parties has unilateral control. Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entity.

The consolidated income statement includes the Group's share of the results of its jointly controlled entity for the year. The consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entity, as reduced by any identified impairment loss.

**(m) Goodwill and negative goodwill**

In prior years, goodwill or negative goodwill arising on consolidation, representing the excess or shortfall of the cost of investments in subsidiaries and associates over the appropriate share of the fair value of the net tangible assets at the date of acquisition, was taken to reserves in the year of acquisition.

With effect from 1 January 2001, with the introduction of SSAP 30, the Group adopted an accounting policy to recognise goodwill as an asset which is amortised on a straight-line basis over its estimated useful life of not more than 20 years. Negative goodwill which relates to an expectation of future losses and expenses that is identified in the plan of acquisition and can be measured reliably, but which has not yet been recognised, is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful lives of those non-monetary assets that are depreciable or amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement. On disposal of a subsidiary or an associate, any attributable amount of purchased goodwill not previously amortised in the income statement is included in the calculation of the profit or loss on disposal.

**1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)****(m) Goodwill and negative goodwill (continued)**

The Group has taken advantage of the transitional provisions in SSAP 30 which do not require the reinstatement of positive or negative goodwill taken to reserves prior to 1 January 2001. In accordance with the provisions of Interpretation 13, assessments of impairment of goodwill also apply to goodwill previously been eliminated against reserves which will not be reinstated at the time of adoption of SSAP 30. The Group has performed an assessment of the fair value of goodwill that had previously eliminated against reserves as detailed in Note 24(iv). The above change in accounting policy has no financial impact on the Group for the current and prior periods.

**(n) Impairment of assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired:

- fixed assets;
- investments in subsidiaries, associates and jointly controlled entity;
- goodwill; and
- trademarks.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

**(i) Calculation of recoverable amount**

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where there are assets that do not generate cash flows largely independent of those from other assets, recoverable amounts are determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

**(ii) Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. Impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment loss is limited to the carrying amount of the asset that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised, except where the assets are carried at revalued amounts, in which case the reversal of impairment loss is treated as a revaluation movement.

**(o) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and, in the case of work in progress and finished goods, cost comprises direct materials, direct labour and an attributable proportion of production overheads. Net realisable value represents the estimated selling price less all further costs to completion and direct selling costs.

**1. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)****(p) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

**(q) Deferred taxation**

Deferred taxation is calculated under the liability method in respect of the taxation effect arising from all timing differences which are expected with reasonable probability to crystallise in the foreseeable future.

**(r) Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

**(s) Cash equivalents**

Cash equivalents are short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance. Cash equivalents include investments and advances denominated in foreign currencies provided that they fulfill the above criteria.

**2. TURNOVER**

The Company is an investment holding company and its subsidiaries are principally engaged in the manufacturing and trading of food products such as flour products and edible oils, as well as detergent and packaging products.

Turnover represents the net invoiced value of goods supplied to external customers.

**3. OTHER INCOME**

	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	2,457	6,814
Management fee income	3,600	3,000
Barge operation income	1,862	2,319
Advertising and promotion income	3,000	1,500
Sales of scrap	1,494	1,626
Recovery of loss from suppliers	—	884
Others	<u>2,549</u>	<u>6,294</u>
	<u><u>14,962</u></u>	<u><u>22,437</u></u>



**4. NET INTEREST EXPENSES**

	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans wholly repayable within five years	41,956	61,728
Less: interest income	<u>(15,966)</u>	<u>(13,178)</u>
	<u>25,990</u>	<u>48,550</u>

**5. OPERATING LOSS**

	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating loss is arrived at after charging/(crediting):		
Staff costs	116,589	100,955
Auditors' remuneration	1,245	1,510
Depreciation	85,687	93,640
Amortisation of trademarks	1,905	—
Operating lease rental of properties	4,804	5,461
Net proceeds from disposal of fixed assets	(21,040)	(214)
Less: carrying value of fixed assets	<u>26,646</u>	<u>516</u>
Loss on disposal of fixed assets	5,606	302
Retirement benefit costs ( <i>Note 6</i> )		
— contributions	<u>5,489</u>	<u>4,449</u>
— forfeited contributions	<u>—</u>	<u>(3,655)</u>
	5,489	794
Provision for doubtful debts	6,012	15,195
Rental income less outgoings	<u>(2,358)</u>	<u>(6,706)</u>

**6. RETIREMENT BENEFIT COSTS**

The Group operates a number of staff retirement benefit schemes comprising defined contribution schemes covering its employees in Hong Kong and two defined benefit schemes covering its employees in Taiwan.

The Group's contributions to the defined contribution scheme are based on a specified percentage on the basic salary and completed years of service of employees. The Group's contributions under the principal scheme are charged to the income statement and are reduced by the amount of forfeited contributions. Any unutilised forfeited balances are set aside as a reserve held in independently administered funds for any future potential long service payments payable by the Group. The total amount of these reserves available for use at the year end date was approximately HK\$360,000 (2000: HK\$31,000).

Under the defined benefit schemes, the calculation of the retirement benefits to the employees is based on years of service and average monthly salary at the time of retirement. The Group's contributions to the defined benefit schemes are calculated as certain percentages of salaries paid to employees and charged to the income statement as incurred. The assets of the schemes are held separately from those of the Group in a central fund administered by the relevant government body in Taiwan. No formal actuarial valuation has been performed by qualified actuary during the year as it is not required in Taiwan. However, the Group has an obligation to ensure that there are sufficient funds in these schemes to pay the benefits earned. The Group performs regular internal evaluation of the adequacy of the funds. Any shortfall in the funds shall be paid by the Group and charged to the income statement.

In addition to the retirement benefit schemes operated by the Group, the Group is required to contribute respectively to Mandatory Provident Fund and central pension schemes for certain Group's employees in Hong Kong and the People's Republic of China based on applicable rates of monthly salary in accordance with government regulations.

## 7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2001 HK\$'000	2000 HK\$'000
Fees	553	580
Other emoluments	<u>1,525</u>	<u>2,339</u>
	<u>2,078</u>	<u>2,919</u>

## 8. TAXATION

(a) Provision for Hong Kong profits tax is calculated at 16% (2000: 16%) on estimated assessable profits for the year. Overseas taxation is provided for at the relevant tax rates.

(b) The taxation charge is made up as follows:

	2001 HK\$'000	2000 HK\$'000
The Company and subsidiaries		
Hong Kong taxation	3,506	3,729
Overseas taxation	3,934	3,249
Deferred taxation ( <i>Note 9(a)</i> )	<u>(817)</u>	<u>(226)</u>
	6,623	6,752
Jointly controlled entity		
Hong Kong taxation	<u>751</u>	<u>534</u>
	<u>7,374</u>	<u>7,286</u>

## 9. DEFERRED TAXATION

(a) Movements of deferred taxation comprise:

	Group	
	2001 HK\$'000	2000 HK\$'000
Balance at 1 January	2,301	2,569
Transfer to income statement ( <i>Note 8(b)</i> )	(817)	(226)
Exchange adjustments	<u>(222)</u>	<u>(42)</u>
Balance at 31 December	<u>1,262</u>	<u>2,301</u>

(b) The components of deferred taxation are as follows:

	Group			
	2001		2000	
	Provided HK\$'000	Unprovided HK\$'000	Provided HK\$'000	Unprovided HK\$'000
Accelerated depreciation allowances	4,719	6,274	5,339	8,812
Future benefit of expenses carried forward for tax purposes	(3,457)	—	(3,038)	—
Unutilised tax losses	<u>—</u>	<u>(29,521)</u>	<u>—</u>	<u>(33,957)</u>
	<u>1,262</u>	<u>(23,247)</u>	<u>2,301</u>	<u>(25,145)</u>

**10. LOSS ATTRIBUTABLE TO SHAREHOLDERS**

Loss attributable to shareholders includes a loss of HK\$16,294,000 (2000: HK\$26,484,000) which has been dealt with in the financial statements of the Company.

**11. LOSS PER SHARE**

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$369,138,000 (2000: HK\$69,737,000) and the weighted average number of 127,904,201 (2000: 127,904,201) ordinary shares in issue during the year.

The diluted loss per share for the years are not presented as the potential ordinary shares in respect of outstanding share options and convertible 5% non-cumulative preference shares are anti-dilutive.

**12. FIXED ASSETS****(a) The Group**

	<b>Freehold properties outside Hong Kong HK\$'000</b>	<b>Medium term leasehold properties outside Hong Kong HK\$'000</b>	<b>Plant, equipment, furniture, motor vehicles and barges HK\$'000</b>	<b>Total HK\$'000</b>
<b>Cost or valuation:</b>				
At 1 January 2001	284,983	788,526	932,971	2,006,480
Exchange adjustments	(29,909)	(80)	(35,616)	(65,605)
Additions	—	66	10,884	10,950
Disposals	(24,436)	—	(22,913)	(47,349)
<b>At 31 December 2001</b>	<b>230,638</b>	<b>788,512</b>	<b>885,326</b>	<b>1,904,476</b>
<b>Representing:</b>				
Cost	47,001	788,512	885,326	1,720,839
Valuation — 1994	183,637	—	—	183,637
<b>At 31 December 2001</b>	<b>230,638</b>	<b>788,512</b>	<b>885,326</b>	<b>1,904,476</b>
<b>Accumulated depreciation:</b>				
At 1 January 2001	66,560	149,190	451,993	667,743
Exchange adjustments	(6,978)	(20)	(22,939)	(29,937)
Charge for the year	6,081	29,358	50,248	85,687
Written back on disposals	(2,748)	—	(17,955)	(20,703)
<b>At 31 December 2001</b>	<b>62,915</b>	<b>178,528</b>	<b>461,347</b>	<b>702,790</b>
<b>Impairment:</b>				
At 1 January 2001	—	—	—	—
Charge for the year	5,580	257,138	93,096	355,814
<b>At 31 December 2001</b>	<b>5,580</b>	<b>257,138</b>	<b>93,096</b>	<b>355,814</b>
<b>Net book value:</b>				
<b>At 31 December 2001</b>	<b>162,143</b>	<b>352,846</b>	<b>330,883</b>	<b>845,872</b>
At 31 December 2000	218,423	639,336	480,978	1,338,737

## 12. FIXED ASSETS (CONTINUED)

## (a) The Group (continued)

- (1) On 7 June 1994, a valuation was carried out by an independent professional valuer, C. Y. Leung & Company Limited, which placed a value of NT\$857,117,000 (2000: NT\$985,000,000) (equivalent to approximately HK\$183,637,000 (2000: HK\$234,922,000)) on certain freehold properties outside Hong Kong at their respective open market values.
- (2) As at 31 December 2001, the directors carried out an impairment review of the freehold properties and medium term leasehold properties outside Hong Kong with reference to the open market value as at 31 December 2001. The respective properties were appraised by CB Richard Ellis Limited.
- (3) The net book value of all properties which have been stated in the balance sheet at valuation would have been HK\$65,356,000 (2000: HK\$96,343,000) had they been stated at cost less accumulated depreciation and impairment loss.
- (4) The properties and plant and machinery held by the Group with a net book value of HK\$452,790,000 (2000: HK\$585,939,000) were pledged to banks to secure general banking facilities granted to the Group.

## (b) The Company

	Furniture and fixtures <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost:</b>			
<b>1 January and 31 December 2001</b>	113	614	727
<b>Accumulated depreciation:</b>			
At 1 January 2001	32	261	293
Charge for the year	38	123	161
<b>At 31 December 2001</b>	70	384	454
<b>Net book value:</b>			
<b>At 31 December 2001</b>	43	230	273
At 31 December 2000	81	353	434

## 13. INTANGIBLE ASSETS

	<b>Goodwill</b> <i>HK\$'000</i>	<b>Group Trademarks</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Cost:</b>			
At 1 January 2001	—	36,830	36,830
Additions	<u>14,294</u>	<u>—</u>	<u>14,294</u>
<b>At 31 December 2001</b>	<b><u>14,294</u></b>	<b><u>36,830</u></b>	<b><u>51,124</u></b>
<b>Accumulated amortisation:</b>			
At 1 January 2001	—	—	—
Charge for the year	<u>—</u>	<u>1,905</u>	<u>1,905</u>
<b>At 31 December 2001</b>	<b><u>—</u></b>	<b><u>1,905</u></b>	<b><u>1,905</u></b>
<b>Impairment:</b>			
At 1 January 2001	—	—	—
Charge for the year	<u>14,294</u>	<u>—</u>	<u>14,294</u>
<b>At 31 December 2001</b>	<b><u>14,294</u></b>	<b><u>—</u></b>	<b><u>14,294</u></b>
<b>Net book value:</b>			
<b>At 31 December 2001</b>	<b><u>—</u></b>	<b><u>34,925</u></b>	<b><u>34,925</u></b>
At 31 December 2000	<u>—</u>	<u>36,830</u>	<u>36,830</u>

## 14. INTEREST IN SUBSIDIARIES

	<b>Company</b>	
	<b>2001</b>	<b>2000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted equity, at cost	239,409	239,409
Amounts due from subsidiaries	<u>1,571,170</u>	<u>1,524,660</u>
	1,810,579	1,764,069
Amounts due to subsidiaries	<u>(492,606)</u>	<u>(341,593)</u>
	<b><u>1,317,973</u></b>	<b><u>1,422,476</u></b>

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

## 15. INTEREST IN ASSOCIATES

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<u>24,580</u>	<u>24,643</u>

Details of the associates are as follows:

Name of company	Place of incorporation/ operation	Percentage of equity holding indirectly	Principal activities
Omeron Profits Limited*	British Virgin Islands	50	Dormant
Tepac Profits Limited*	British Virgin Islands	50	Dormant

\* *Companies not audited by PKF*

## 16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Share of net assets	<u>58,930</u>	<u>53,910</u>

Details of the jointly controlled entity are as follows:

Name of company	Place of incorporation/ operation	Percentage of equity holding indirectly	Principal activities
Evergreen Oils & Fats Limited*	Cayman Islands/ Hong Kong	50	Blending and distribution of edible oils, fats and shortenings

\* *Company not audited by PKF*

## 17. INVENTORIES

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	107,273	92,568
Work in progress	15,324	7,865
Finished goods	79,455	72,586
Inventories in transit	19,079	6,831
Packing materials	5,451	6,822
Spare parts	<u>17,199</u>	<u>30,713</u>
	<u>243,781</u>	<u>217,385</u>

As at 31 December 2001, the carrying amount of inventories pledged as security for liabilities was HK\$15,866,000 (2000: HK\$6,767,000).

## 18. DEBTORS, DEPOSITS AND PREPAYMENTS

The ageing analysis of trade debtors (net of provisions for bad and doubtful debts) is as follows:

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
0-3 months	176,053	168,667
4-6 months	4,899	10,354
Over 6 months	<u>—</u>	<u>2,208</u>
Total trade debtors	180,952	181,229
Deposits and prepayments	<u>92,694</u>	<u>90,581</u>
	<u><u>273,646</u></u>	<u><u>271,810</u></u>

The credit terms given to the customers vary and are generally based on the financial strengths of individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

## 19. OTHER CURRENT ASSETS

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Amounts due from fellow subsidiaries	5,641	495	—	—
Amount due from a jointly controlled entity	<u>3,758</u>	<u>18,199</u>	<u>20</u>	<u>1,501</u>
	<u><u>9,399</u></u>	<u><u>18,694</u></u>	<u><u>20</u></u>	<u><u>1,501</u></u>

The amounts due from fellow subsidiaries and a jointly controlled entity are interest-free, unsecured and repayable on demand.

## 20. BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

	Group		Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Bank loans and overdrafts				
— Secured	264,979	344,501	159,337	124,800
— Unsecured	<u>80,099</u>	<u>123,310</u>	<u>38,990</u>	<u>38,995</u>
	<u><u>345,078</u></u>	<u><u>467,811</u></u>	<u><u>198,327</u></u>	<u><u>163,795</u></u>
Other loans				
— Secured	—	9,540	—	—
— Unsecured	<u>57,929</u>	<u>12,641</u>	<u>—</u>	<u>—</u>
	<u><u>57,929</u></u>	<u><u>22,181</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
	<u><u>403,007</u></u>	<u><u>489,992</u></u>	<u><u>198,327</u></u>	<u><u>163,795</u></u>

The other secured and unsecured loans of the Group bear interests at 3.3% to 7.9% (2000: 5.3% to 6.5%) per annum.

## 21. CREDITORS, DEPOSITS RECEIVED AND ACCRUALS

The ageing analysis of trade creditors is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
0–3 months	138,544	149,595
4–6 months	14,285	12,566
Over 6 months	<u>777</u>	<u>1,098</u>
Total trade creditors	153,606	163,259
Deposits received and accruals	<u>98,728</u>	<u>87,880</u>
	<u><u>252,334</u></u>	<u><u>251,139</u></u>

## 22. OTHER CURRENT LIABILITIES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Amounts due to				
— Fellow subsidiaries ( <i>Note a</i> )	—	434	—	—
— Associates ( <i>Note a</i> )	23,136	23,152	23,135	23,151
— Ultimate holding company ( <i>Note b</i> )	<u>28,554</u>	<u>21,380</u>	<u>6,935</u>	<u>560</u>
	<u><u>51,690</u></u>	<u><u>44,966</u></u>	<u><u>30,070</u></u>	<u><u>23,711</u></u>

Notes:

- (a) The amounts due to fellow subsidiaries and associates are interest-free, unsecured and repayable on demand.
- (b) The amount due to ultimate holding company included an amount of HK\$6,935,000 (2000: HK\$560,000) which bears interest at 3.6% to 8.8% (2000: 8.2% to 9%) per annum and the remaining balance is interest-free. The whole balance is unsecured and repayable on demand.

## 23. SHARE CAPITAL

	2001 HK\$'000	2000 HK\$'000
Authorised:		
Ordinary shares 185,000,000 shares of HK\$1 each	185,000	185,000
Convertible 5% non-cumulative preference shares 500,000,000 shares of HK\$0.05 each	<u>25,000</u>	<u>25,000</u>
	<u><u>210,000</u></u>	<u><u>210,000</u></u>
Issued and fully paid:		
Ordinary shares 127,904,201 shares of HK\$1 each	127,904	127,904
Convertible 5% non-cumulative preference shares 500,000,000 shares of HK\$0.05 each	<u>25,000</u>	<u>25,000</u>
	<u><u>152,904</u></u>	<u><u>152,904</u></u>

The salient terms of the convertible 5% non-cumulative preference shares (“CP Shares”) are summarised as follows:

- (i) The Company is required to pay a fixed non-cumulative preferential cash dividend of 5% per annum only if a cash dividend is declared or approved in favour of the shareholders of the Company (excluding the holders of CP Shares).



**23. SHARE CAPITAL (CONTINUED)**

- (ii) The Company shall be entitled, at any time after the fifth anniversary of the date of issue of the CP Shares by resolution of the directors of the Company, to redeem all or any of the then outstanding CP Shares in the event that the holders of such CP Shares fail to exercise their conversion rights within 14 days after receiving notice of a proposed redemption. Under the terms of the CP Shares, the Company is not obliged to redeem all or any of the CP Shares at any time.
- (iii) The existing basis of conversion of ordinary shares is 1,737 ordinary shares for every 20,000 CP Shares. The basis of conversion of ordinary shares will be adjusted in the occurrence of events such as (i) any capital distribution; (ii) any capitalisation of profits or reserves; (iii) any consolidation or sub-division of shares in the capital of the Company (excluding CP Shares) or (iv) any offer of shares by way of rights.

**Share options**

Pursuant to the share option scheme (“the Scheme”) approved by the shareholders on 3 June 1993, the directors of the Company may invite employees and directors of the Company or of any of its subsidiaries to take up options to subscribe for shares of HK\$1 each in the capital of the Company. Following the rights issue and consolidation of shares of the Company on 30 April 1997, the subscription price of the Scheme was then adjusted accordingly.

The purpose of the Scheme is to encourage the officers and staff to participate in the ownership of the Company in order to provide additional incentives to them.

The total number of shares available for issue under the Scheme is 12,443,892 which represents 9.729% of the issued share capital of the Company at the date of this report.

The maximum entitlement of each participant under the Scheme would not exceed 25% of the aggregate number of shares for the time being issue and issuable under the Scheme.

Upon acceptance of the option, the grantee shall inform the Company together with HK\$1 by way of consideration for the grant within 14 days from the date of making offer of option.

Under the Scheme, the grantee shall be entitled to exercise an option to the extent in any one year from the date of grant as follows:

Year 1	:	up to 20% of the shares comprised in the option at its date of grant (or if applicable as subsequently adjusted in accordance with the Scheme);
Year 2	:	up to 40% of the shares so comprised, less the percentage of shares in respect of which the option was exercised in Year 1;
Year 3	:	up to 60% of the shares so comprised, less the percentage of shares in respect of which the option was exercised in Years 1 and 2;
Year 4	:	up to 80% of the shares so comprised, less the percentage of shares in respect of which the option was exercised in Years 1, 2 and 3;
Years 5 to 10 (inclusive)	:	all shares so comprised in respect of which the option was not previously exercised.

The option price for shares under the Scheme will be 90% of the average of the official closing price of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of offer of the option, or the nominal value of the shares, whichever is the greater.

The Scheme will remain in force for the period of 10 years commencing on the adoption date of the Scheme, from 3 June 1993 to 2 June 2003.

## 24. RESERVES

## (a) The Group

	Share premium HK\$'000	Property revaluation reserve HK\$'000	Exchange reserve HK\$'000	Revenue reserve HK\$'000	Capital reserve HK\$'000	Legal reserve HK\$'000	Total HK\$'000
At 1 January 2000	910,121	—	(75,864)	299,383	2,528	9,903	1,146,071
Recognition of impairment loss on goodwill previously eliminated against property revaluation reserve	—	28,555	—	(28,555)	—	—	—
Realisation of restated property revaluation reserve relating to properties disposed in previous years	—	(28,555)	—	28,555	—	—	—
As restated	910,121	—	(75,864)	299,383	2,528	9,903	1,146,071
Transfer from revenue reserve to capital and legal reserve by subsidiaries	—	—	—	(730)	18	712	—
Exchange differences arising on translation of financial statements of overseas subsidiaries	—	—	(1,804)	—	—	—	(1,804)
Loss for the year	—	—	—	(69,737)	—	—	(69,737)
At 31 December 2000	<u>910,121</u>	<u>—</u>	<u>(77,668)</u>	<u>228,916</u>	<u>2,546</u>	<u>10,615</u>	<u>1,074,530</u>
Attributable to:							
Company and subsidiaries	910,121	—	(77,668)	200,228	2,546	10,615	1,045,842
Associates	—	—	—	24,642	—	—	24,642
Jointly controlled entity	—	—	—	4,046	—	—	4,046
At 31 December 2000	<u>910,121</u>	<u>—</u>	<u>(77,668)</u>	<u>228,916</u>	<u>2,546</u>	<u>10,615</u>	<u>1,074,530</u>
At 1 January 2001	910,121	—	(77,668)	228,916	2,546	10,615	1,074,530
Transfer from revenue reserve to capital and legal reserve by subsidiaries	—	—	—	(43)	18	25	—
Exchange differences arising on translation of financial statements of overseas subsidiaries	—	—	(28,989)	—	—	—	(28,989)
Loss for the year	—	—	—	(369,138)	—	—	(369,138)
At 31 December 2001	<u>910,121</u>	<u>—</u>	<u>(106,657)</u>	<u>(140,265)</u>	<u>2,564</u>	<u>10,640</u>	<u>676,403</u>
Attributable to:							
Company and subsidiaries	910,121	—	(106,657)	(173,910)	2,564	10,640	642,758
Associates	—	—	—	24,579	—	—	24,579
Jointly controlled entity	—	—	—	9,066	—	—	9,066
At 31 December 2001	<u>910,121</u>	<u>—</u>	<u>(106,657)</u>	<u>(140,265)</u>	<u>2,564</u>	<u>10,640</u>	<u>676,403</u>

## 24. RESERVES (CONTINUED)

## (b) The Company

	Share premium HK\$'000	Property revaluation reserve HK\$'000	Exchange reserve HK\$'000	Revenue reserve HK\$'000	Capital reserve HK\$'000	Legal reserve HK\$'000	Total HK\$'000
At 1 January 2000	910,121	—	—	81,587	—	—	991,708
Loss for the year	—	—	—	(26,484)	—	—	(26,484)
At 31 December 2000	<u>910,121</u>	<u>—</u>	<u>—</u>	<u>55,103</u>	<u>—</u>	<u>—</u>	<u>965,224</u>
At 1 January 2001	910,121	—	—	55,103	—	—	965,224
Loss for the year	—	—	—	(16,294)	—	—	(16,294)
At 31 December 2001	<u>910,121</u>	<u>—</u>	<u>—</u>	<u>38,809</u>	<u>—</u>	<u>—</u>	<u>948,930</u>

## Notes:

- (i) The legal reserve of the Group represents the transfer from the retained profits of the Group's subsidiaries in Taiwan. It is non-distributable and is calculated at 10% on the retained profits for the year, after deducting accumulated losses brought forward, if any.
- (ii) Certain subsidiaries of the Group entered into some credit agreements with banks which impose restriction on their dividend payments and require the maintenance of certain debt/equity ratio.
- (iii) A subsidiary incorporated in Taiwan disposed certain fixed assets and recorded a gain on disposal. According to the applicable law in Taiwan, 75% of such gain should be capitalised and recorded in capital reserve.
- (iv) Goodwill of HK\$28,555,000 previously eliminated against property revaluation reserve of the Group is assessed to have been fully impaired and recognition of impairment loss of the same amount relating to the period prior to 1 January 2000 was charged to retained earnings as at 1 January 2000. The opening balance of property revaluation reserve brought forward as at 1 January 2000 is increased by the said amount. However, as the properties related to the restated property revaluation reserve have already been disposed in 1996, the property revaluation reserve now restated should be credited to retained earnings as at 1 January 2000 at the same time. As a result, the opening balances of the retained earnings and property revaluation reserve as at 1 January 2000 remained the same as previously reported.

## 25. CONTRIBUTED SURPLUS

	Company	
	2001 HK\$'000	2000 HK\$'000
Balance of contributed surplus arising from acquisition of subsidiaries	<u>12,424</u>	<u>12,424</u>

The contributed surplus represents the difference between the nominal value of the Company's shares issued in exchange for all the issued ordinary shares of Lam Soon Food Industries (BVI) Limited and the value of the net assets of the underlying subsidiaries acquired as at 30 June 1990. Under The Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders and the aggregate distribution out of contributed surplus to date amounted to HK\$31,958,000 (2000: HK\$31,958,000).

## 25. CONTRIBUTED SURPLUS (CONTINUED)

The distributable reserve calculated in accordance with The Companies Act 1981 of Bermuda (as amended) is as follows:

	Company	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contributed surplus	12,424	12,424
Retained profits	<u>38,809</u>	<u>55,103</u>
	<u>51,233</u>	<u>67,527</u>

## 26. BANK LOANS AND OTHER LIABILITIES

	Group		Company	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Secured bank loans repayable				
— After one year but within two years	656	203,533	—	202,797
— After two years but within five years	—	730	—	—
Other unsecured loan repayable				
— After one year but within two years	<u>—</u>	<u>46,794</u>	<u>—</u>	<u>—</u>
	<u>656</u>	<u>251,057</u>	<u>—</u>	<u>202,797</u>

As at 31 December 2000, the other unsecured loan of the Group bore interests at 6.8% to 7.9% per annum.

## 27. RECONCILIATION OF PROFIT FROM OPERATIONS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations	26,234	5,017
Depreciation and amortisation	87,592	93,640
Provision for doubtful debts	6,012	15,195
Loss on disposal of fixed assets	191	302
(Increase)/decrease in inventories	(26,396)	55,686
Increase in amounts due from fellow subsidiaries	(5,146)	(33)
Decrease/(increase) in amount due from a jointly controlled entity	14,441	(6,069)
(Increase)/decrease in debtors, deposits and prepayments	(10,402)	1,412
Decrease/(increase) in bills receivable	10,139	(12,115)
Increase/(decrease) in creditors, deposits received and accruals	1,511	(6,172)
Increase in bills payable	14,911	40,994
(Decrease)/increase in amounts due to fellow subsidiaries	(434)	252
Decrease in amounts due to associates	(16)	(20)
Increase in amount due to ultimate holding company	5,272	17,111
Exchange adjustments	<u>(1,399)</u>	<u>(1,028)</u>
Net cash inflow from operating activities	<u>122,510</u>	<u>204,172</u>

## 28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<b>Bank loans</b> <i>HK\$'000</i>	<b>Other loans</b> <i>HK\$'000</i>	<b>Minority interests</b> <i>HK\$'000</i>
Balance as at 1 January 2000	660,776	52,329	73,624
Net cash (outflow)/inflow from financing	(43,660)	9,421	(549)
Share of loss and reserves by minority shareholders	—	—	(8,335)
Effect of foreign exchange rate changes	<u>899</u>	<u>70</u>	<u>(1,390)</u>
<b>Balance as at 31 December 2000</b>	<b><u>618,015</u></b>	<b><u>61,820</u></b>	<b><u>63,350</u></b>
Balance as at 1 January 2001	618,015	61,820	63,350
Net cash outflow from financing	(366,045)	(2,357)	—
Share of loss and reserves by minority shareholders	—	—	(7,807)
Decrease in minority shareholders' interest in subsidiaries	—	—	12,539
Effect of foreign exchange rate changes	<u>(2,361)</u>	<u>(1,534)</u>	<u>(6,423)</u>
<b>Balance as at 31 December 2001</b>	<b><u>249,609</u></b>	<b><u>57,929</u></b>	<b><u>61,659</u></b>

## 29. COMMITMENTS

As at 31 December 2001, the Group had commitment to make payment in respect of guaranteed profits payable to the joint venture partners under a joint venture agreement amounting to HK\$5,145,000 (2000: HK\$5,968,000) in aggregate over the unexpired term of the joint venture agreement of six years. In return, the Group is entitled to all the residual profits of the joint venture.

## 30. CONTINGENT LIABILITIES

- (a) As at 31 December 2001, the Company had contingent liabilities in respect of guarantees given by the Company to banks to secure banking facilities granted to certain subsidiaries of which amounts utilised by the subsidiaries amounted to HK\$53,858,000 (2000: HK\$52,377,000).
- (b) As at 31 December 2001, the Group and the Company had contingent liabilities in respect of several guarantees given by the Company to banks to secure banking facilities of a jointly controlled entity to the extent of HK\$15,333,000 (2000: HK\$10,131,000).
- (c) As at 31 December 2001, the Group sold its notes receivable with recourse to finance companies amounting to HK\$20,408,000 (2000: HK\$15,533,000).
- (d) As at 31 December 2001, the Group committed to supply 32 million (2000: 123 million) aluminium cans to a customer in Taiwan at a fixed price. Such commitment was covered by a bank guarantee issued to the customer amounting to approximately NT\$9,776,000 (2000: NT\$10,743,000) (equivalent to approximately HK\$2,095,000 (2000: HK\$2,562,000)). The Group had contingent liabilities arising from counter indemnity given to the bank in respect of such guarantee.

## 31. RELATED PARTY TRANSACTIONS

Apart from the transactions as disclosed in Notes 19, 22 and 30(b) to the financial statements, the Group had the following material transactions with its related parties during the year:

Related parties	Nature of transactions	Notes	2001	2000
			HK\$'000	HK\$'000
(a) Ultimate holding company	Management fee paid	(i)	9,708	9,708
(b) Fellow subsidiaries	Rental income from lease of plant and machinery	(i)	—	2,886
	Rental expense paid for lease of offices and warehouses	(i)	4,666	4,224
	Sales of flour	(iii)	3,296	2,887
	Purchases of frozen food products	(iii)	21,782	—
(c) Jointly controlled entity	Purchases of small package oil	(ii)	4,426	5,289
	Sales of aroma oil	(iii)	40,911	45,147
	Sales of detergent products	(iii)	2,912	3,048
	Sub-contracting income on oil refinement	(iii)	1,936	3,022
	Barge rental and operation fee income	(iv)	1,080	1,080
	Advertising and promotion income	(iv)	3,000	1,500
	Management fee income	(iv)	3,000	3,000
	Royalties received for the use of trademarks	(v)	<u>23,188</u>	<u>24,443</u>

## Notes:

- (i) The management fee payable to the ultimate holding company, Lam Soon (Hong Kong) Limited (“LSHK”), the rental expenses payable to and rental income receivable from fellow subsidiaries were calculated with reference to services rendered to the Group and floor area occupied by the Group respectively.
- (ii) Purchases of small package oil were carried out at cost plus a percentage of profit mark-up.
- (iii) Sales of flour, aroma oil, detergent products and sub-contracting income on oil refinement and purchases of frozen food products were made with reference to the market price.
- (iv) Barge rental and operation fee income, advertising and promotion and management fee income were determined on the basis of the cost and the amount of services performed by the Group.
- (v) Under the trademark licence agreement, the royalties received for the use of the trademarks are calculated based on a percentage as may be agreed between the parties from time to time of the gross sales value of licensed products sold by the licensee within Hong Kong and Macau.
- (vi) As at 31 December 2000, LSHK executed a guarantee in favour of the security agent for US\$5.5 million (the guaranteed amount being in proportion to LSHK’s equity interest in the Company) in connection with a tranche of the syndicated loan of US\$9 million granted to the Company. The Company fully repaid the respective tranche of the syndicated loan during the year ended 31 December 2001.

**32. SEGMENT REPORTING****Business segments**

The Group principally operates in five segments and the specific products of each segment are as follows:

- (1) Food — Manufacturing and distribution of a broad range of food products including wheat flour, edible oils and vegetable fats
- (2) Detergent — Manufacturing and distribution of household cleaning products including liquid dish washing detergent, laundry powder, fabric softener and floor cleaner
- (3) Packaging — Manufacturing and supply of easy-open-ends and two-piece aluminium cans for beverage industry
- (4) Distribution — Trading and distribution of a wide range of products such as flour, detergent, bakery, frozen food, drinks and agency products in Hong Kong
- (5) Bulk trading — Trading of edible oils and grains

All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include investment holding, Internet service and property holding activities.

**Geographical segments**

The Group's business is managed on a worldwide basis, but participates in three principal geographical areas:

- (1) Mainland China — Manufacturing and distribution of flour, edible oils, detergent and packaging products
- (2) Hong Kong — Trading and distribution of flour, detergent, bakery, frozen food, drinks and agency products
- (3) Taiwan — Manufacturing and supply of easy-open-ends and two-piece aluminium cans for beverage industry

## 32. SEGMENT REPORTING (CONTINUED)

## 2001

## (A) Business segments

	Food	Detergent	Packaging	Distribution	Bulk trading	Others	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(i) Revenue								
Revenue from external customers	931,214	82,311	449,528	127,499	5,313	173	—	1,596,038
Inter-segment sales	61,116	10,157	—	—	19,814	—	(91,087)	—
Other revenue	8,348	369	2,657	250	2,552	786	—	14,962
Total revenue	<u>1,000,678</u>	<u>92,837</u>	<u>452,185</u>	<u>127,749</u>	<u>27,679</u>	<u>959</u>	<u>(91,087)</u>	<u>1,611,000</u>
(ii) Segment results	71,755	2,556	(17,574)	14,854	(5,227)	(40,130)	—	26,234
Net interest expenses								(25,990)
Loss on disposal of properties	—	—	(5,415)	—	—	—	—	(5,415)
Impairment								
— fixed assets	(142,125)	—	(190,403)	—	(23,286)	—	—	(355,814)
— goodwill	(12,539)	—	—	—	—	(1,755)	—	(14,294)
Share of results of associates	—	—	—	—	—	(63)	—	(63)
Share of results of a jointly controlled entity	5,771	—	—	—	—	—	—	5,771
Taxation								(7,374)
Minority interests								7,807
Loss attributable to shareholders								<u>(369,138)</u>
(iii) Depreciation and amortisation for the year	<u>42,401</u>	<u>1,734</u>	<u>36,842</u>	<u>522</u>	<u>3,364</u>	<u>2,729</u>	<u>—</u>	<u>87,592</u>
(iv) Provision for doubtful debts	<u>2,076</u>	<u>245</u>	<u>2,803</u>	<u>860</u>	<u>8</u>	<u>20</u>	<u>—</u>	<u>6,012</u>
(v) Segment assets	839,237	32,751	487,039	84,875	42,105	155,253	—	1,641,260
Interests in jointly controlled entity and associates	58,930	—	—	—	—	24,580	—	83,510
Unallocated assets								10,536
Total assets								<u>1,735,306</u>
(vi) Segment liabilities	208,021	16,166	104,332	15,830	5,112	17,128	—	366,589
Unallocated liabilities								477,751
Total liabilities								<u>844,340</u>
(vii) Capital expenditure incurred during the year	<u>7,732</u>	<u>442</u>	<u>2,227</u>	<u>160</u>	<u>11</u>	<u>378</u>	<u>—</u>	<u>10,950</u>

## (B) Geographical segments

	Mainland China	Hong Kong	Taiwan	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<u>964,429</u>	<u>358,856</u>	<u>272,753</u>	<u>1,596,038</u>
Segment assets	<u>1,134,348</u>	<u>249,328</u>	<u>351,630</u>	<u>1,735,306</u>
Capital expenditure incurred during the year	<u>8,783</u>	<u>598</u>	<u>1,569</u>	<u>10,950</u>



## 32. SEGMENT REPORTING (CONTINUED)

2000

## (A) Business segments

	Food	Detergent	Packaging	Distribution	Bulk trading	Others	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(i) Revenue								
Revenue from external customers	959,034	88,213	482,648	—	35,860	—	—	1,565,755
Inter-segment sales	—	—	—	—	28,349	—	(28,349)	—
Other revenue	10,800	741	7,125	—	3,423	348	—	22,437
Total revenue	<u>969,834</u>	<u>88,954</u>	<u>489,773</u>	<u>—</u>	<u>67,632</u>	<u>348</u>	<u>(28,349)</u>	<u>1,588,192</u>
(ii) Segment results	68,779	3,408	(29,065)	—	(6,349)	(31,756)	—	5,017
Net interest expenses								(48,550)
Provision for contingent loss in respect of wheat quota	(23,600)	—	—	—	—	—	—	(23,600)
Impairment — fixed assets	—	—	—	—	—	(6,999)	—	(6,999)
Share of results of associates	—	—	—	—	—	(1)	—	(1)
Share of results of a jointly controlled entity	3,347	—	—	—	—	—	—	3,347
Taxation								(7,286)
Minority interests								8,335
Loss attributable to shareholders								<u>(69,737)</u>
(iii) Depreciation and amortisation for the year	<u>43,066</u>	<u>1,833</u>	<u>42,437</u>	<u>—</u>	<u>4,019</u>	<u>2,285</u>	<u>—</u>	<u>93,640</u>
(iv) Provision for doubtful debts	<u>1,097</u>	<u>375</u>	<u>13,723</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,195</u>
(v) Segment assets	1,020,450	41,797	808,273	—	74,935	348,173	—	2,293,628
Interests in jointly controlled entity and associates	53,910	—	—	—	—	24,643	—	78,553
Unallocated assets								28,485
Total assets								<u>2,400,666</u>
(vi) Segment liabilities	181,727	18,092	104,223	—	1,344	7,287	—	312,673
Unallocated liabilities								797,209
Total liabilities								<u>1,109,882</u>
(vii) Capital expenditure incurred during the year	<u>19,414</u>	<u>503</u>	<u>10,583</u>	<u>—</u>	<u>—</u>	<u>120</u>	<u>—</u>	<u>30,620</u>

## (B) Geographical segments

	Mainland China	Hong Kong	Taiwan	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	<u>972,643</u>	<u>324,448</u>	<u>268,664</u>	<u>1,565,755</u>
Segment assets	<u>1,354,000</u>	<u>523,820</u>	<u>522,846</u>	<u>2,400,666</u>
Capital expenditure incurred during the year	<u>21,146</u>	<u>143</u>	<u>9,331</u>	<u>30,620</u>

**33. ULTIMATE HOLDING COMPANY**

The directors consider the ultimate holding company to be Lam Soon (Hong Kong) Limited, a listed company incorporated in Hong Kong.

**34. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform with current year's presentation.

**3. PROFORMA UNAUDITED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

The following is a statement of the proforma net tangible assets of the Group which was computed based on the audited consolidated net tangible assets of the Group as at 31 December 2001 and adjusted for the surplus arising from the valuation of properties, property interests and plants of the Group on 31 March 2002:

	<i>HK\$'000</i>
Audited consolidated net tangible assets of the Group	794,382
Add: surplus arising from the valuation of properties, property interests and plants of the Group on 31 March 2002	11,662
Proforma net tangible assets of the Group	806,044
Proforma net tangible asset value per Share	HK\$6.11*
Adjusted proforma net tangible asset value per Share, assuming full conversion of the Convertible Preference Shares	HK\$4.70

\* *In calculating the proforma net tangible asset value per Share, the share capital of HK\$25 million in respect of the Convertible Preference Shares has been deducted from the proforma net tangible asset value of the Group*

**4. STATEMENT OF INDEBTEDNESS**

As at the close of business on 31 March 2002 (being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document), the Group had outstanding borrowings comprising bank overdrafts of approximately HK\$25.5 million, bank loans of approximately HK\$251.1 million, other loans of approximately HK\$60.2 million and bills payable of approximately HK\$163.6 million.

Of these borrowings, approximately HK\$203.2 million relating to bank loans are secured by certain properties and plant and machineries held by the Group in Hong Kong, the PRC and Taiwan.

As at 31 March 2002, the Group had contingent liabilities in respect of several guarantees given to banks to secure banking facilities of a jointly controlled entity to the extent of approximately HK\$19.2 million and notes receivable sold with recourse to finance companies amounting to approximately HK\$22.9 million.

In addition, the Group had commitment to make payment in respect of guaranteed profits payable to the joint venture partners under a joint venture agreement amounted to approximately HK\$5.1 million in aggregate over the unexpired term of the joint venture agreement of six years. In return, the Group is entitled to all the residual profits of the joint venture.

As at 31 March 2002, the Group had entered into forward contract and interest rate swap agreements of notional principal amounts of approximately US\$2.0 million and approximately US\$0.5 million respectively for hedging purposes.

Save as set out in the preceding paragraphs and apart from intra-group liabilities, none of the companies of the Group had outstanding as at the close of business on 31 March 2002 any mortgages, charges, debentures, loan capital and overdrafts, or other similar indebtedness, finance leases or hire-purchase commitments, liabilities under acceptances or acceptances credits or any guarantees or other material contingent liabilities.

## **5. MATERIAL CHANGE**

Save as disclosed in this document, the Directors are not aware of any material change in the financial or trading position of the Group since 31 December 2001, the date to which the latest audited consolidated financial statements of the Group were made up.

*The following is the text of the letter, summary of valuation and valuation certificate received from CB Richard Ellis Limited prepared for the purpose of inclusion in this document, in connection with its valuation as at 31 March 2002 of the property interests of the Group in the PRC and Taiwan.*

**世邦魏理仕**  
**CB Richard Ellis**

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地產代理 (公司) 牌照號碼  
Estate Agent's Licence [Co.] No. C-004065

**The Directors**

Lam Soon Food Industries Limited

Lam Soon Building

21 Dai Fu Street

Tai Po Industrial Estate

Tai Po, New Territories

6 May 2002

Dear Sirs,

We refer to your recent instructions for us to carry out a valuation of various property interests held by Lam Soon Food Industries Limited and its subsidiaries (together the “Group”). Details of the properties are set out in the attached valuation certificate. We confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 March 2002.

We have valued the property interests on the basis of Open Market Value which we would define as intended to mean “the best price at which the sale of an interest in the property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

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

Our valuation has been made on the assumption that the owners sell the properties on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the properties.

We have valued the property interests, in except of a wheat silo building in Property No. 2, by reference to comparable market transactions in the relevant locality. For those factories, warehouses and their ancillary facilities, we have also made reference to the depreciated replacement cost approach which considers the cost to reproduce or replace in new condition the property appraised in accordance with current construction costs for similar property in the locality, with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes.

Due to the nature of the **wheat silo building in Property No. 2**, there are no readily identifiable comparable market transactions, and the building cannot be valued on the basis of the direct comparison approach. The building has therefore been valued on the basis of its depreciated replacement cost approach.

We have relied to a considerable extent on information given by the Group and have accepted advice given to us on matters such as interests attributable to the Group, tenures, planning approvals, statutory notices, tenancies, site and floor areas. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximate.

Whilst we have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries, we have not scrutinised the original documents, if any, which may not appear on the copies handed to us. We have no reason to doubt the truth and accuracy of the information provided to us by the Group, which is material to valuation. We were also advised by the Group that no material facts have been omitted from the information provided to us.

In respect of **Properties Nos. 14 and 15**, we have caused a search made at the Property Registry in Taiwan. We have not, however, inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies obtained by us. We have not searched the titles of the properties which are located in the People's Republic of China ("PRC").

We have been provided with copies of extracts of title documents relating to these property interests and legal opinions (the "Legal Opinions") provided by qualified lawyers of Guangdong Jindi Law Office in the PRC and Lee And Li, Attorneys-at-law in Taiwan. According to the Legal Opinions, the Group owns the property interests in these properties wholly or partly, save and except disclosed in the valuation certificate.

We have inspected the properties to such extent as for the purpose of this valuation. In the course of our inspection, we did not notice any serious defects. For the buildings concerned, however, we have not carried out any structural survey nor were any tests made on the services. Therefore, we were not able to report whether the properties are free of rot, infestation or any other structural defects. We have not carried out any land survey and we have of necessity assumed that the buildings have been erected within the title boundaries.

We have not carried out on-site investigations to determine the suitability of the soil conditions and the services etc. for the completed buildings or future development. Our valuation has been prepared on the assumption that these aspects are satisfactory and does not make any allowance for contamination or pollution of the land, if any, which may have occurred as a result of past usage.

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

Neither the whole nor any part of this letter and valuation certificates or any reference to them may be included in any published document, circular or statement nor published in any way without our prior written approval to the form and context in which it may appear.

Unless otherwise stated, all monetary amounts are stated in Hong Kong dollars (HK\$). Where necessary, we have converted Renminbi (“RMB”) and Taiwan Dollar (NT\$) into Hong Kong dollars (“HK\$”) at the exchange rates of RMB1 = HK\$0.942863 and NT\$1 = HK\$0.222610, being the rates prevailing at the date of valuation.

We enclose herewith a summary of values and our valuation certificate.

Yours faithfully  
For and on behalf of  
**CB Richard Ellis Limited**  
**Alex P W Leung** AHKIS MRICS RPS  
*Associate Director*  
Valuation & Advisory Services

*Note:* CB Richard Ellis (formerly named as Richard Ellis) provides valuation services in Hong Kong since 1978 and began the valuation jobs in other parts of the Greater China in the early 1980s. Mr. Alex P. W. Leung is a member of the Royal Institution of Chartered Surveyors and an associate of Hong Kong Institute of Surveyors. He joined this company in early 1995 and has been practicing in the valuation of properties in the Greater China since then.

## SUMMARY OF VALUATION

## Group I — PRC property interests held for own use

Property	Capital value in the existing state as at 31 March 2002	Percentage of property interest valued attributable to the Group	Capital value attributable to the Group as at 31 March 2002
1. 3 flats and 8 stores in Enji Garden Jia-1 Wanshou Road Haidei District, Beijing The People's Republic of China	HK\$2,360,000	87.9%	HK\$2,070,000
2. Factory Compound at Lots Nos. K202-008(1), K202-008(2), K202-009 and K202-010 Nankang Road Shekou Industrial Area Nanshan District, Shenzhen Guangdong Province The People's Republic of China	HK\$230,000,000	100% (Lots K202-008(1) & K202-010) 89.1% (Lots K202-008(2) & K202-009)	HK\$220,000,000
3. Factory Compound at Lot No. K202-011 Nankang Road Shekou Industrial Area Nanshan District, Shenzhen Guangdong Province The People's Republic of China	HK\$77,410,000	87.9%	HK\$68,040,000
4. Units Nos, 645-664 on Level 6 and Nos. 925-930 on Level 9 Taoyuan Single Apartments Building Nanshan Avenue, Nanshan District Shenzhen, Guangdong Province The People's Republic of China	HK\$2,730,000	100%	HK\$2,730,000
5. Units Nos. 745-764 on Level 7 Nos. 845-864 on Level 8 and Nos. 931-936 on Level 9 Taoyuan Single Apartments Building Nanshan Avenue, Nanshan District Shenzhen, Guangdong Province The People's Republic of China	HK\$4,490,000	87.9%	HK\$3,950,000

Property	Capital value in the existing state as at 31 March 2002	Percentage of property interest valued attributable to the Group	Capital value attributable to the Group as at 31 March 2002
6. Units Nos. 504–506 on Level 5 Nos. 601–606 on Level 6 and Nos. 904–906 on Level 9 Huaguoshan Mansion Gongyuan Road Shekou Industrial Area Shenzhen, Guangdong Province The People’s Republic of China	HK\$3,770,000	100%	HK\$3,770,000
7. Units Nos. 501–503 on Level 5 Nos. 901–903 on Level 9 Huaguoshan Mansion Gongyuan Road Shekou Industrial Area Shenzhen, Guangdong Province The People’s Republic of China	HK\$1,890,000	87.9%	HK\$1,660,000
8. Units No. 502 on Level 5 of Block 2 and No. 104 on Level 1 of Block 3 Haibin Garden Xinhua Road Shekou Industrial Area Shenzhen, Guangdong Province The People’s Republic of China	HK\$860,000	100%	HK\$860,000
9. Units Nos. 102–104 on Level 1 No. 804 on Level 8 of Block 1 and No. 201 on Level 2 of Block 2 Haibin Garden Xinhua Road Shekou Industrial Area Shenzhen, Guangdong Province The People’s Republic of China	HK\$2,360,000	87.9%	HK\$2,070,000
10. Units Nos. 204–206 and 209–210 on Level 2 Yinghui Mansion, Bitao Court Xinghua Road, Nanshan District Shenzhen, Guangdong Province The People’s Republic of China	HK\$1,390,000	100%	HK\$1,390,000



Property	Capital value in the existing state as at 31 March 2002	Percentage of property interest valued attributable to the Group	Capital value attributable to the Group as at 31 March 2002
11. Industrial Complex at Anfa Warehouse Lot Northern Bank of Luoqi, Dashi Town Panyu, Guangzhou Guangdong Province The People's Republic of China	HK\$11,000,000	95.2%	HK\$10,470,000
12. Factory at No. 22 Hongqi Road Hongqi District, Zhuhai Guangdong Province The People's Republic of China	HK\$11,600,000	100%	HK\$11,600,000
13. Dormitory at No. 33 Hongqi Road Hongqi District, Zhuhai Guangdong Province The People's Republic of China	HK\$3,300,000	100%	HK\$3,300,000
<b>Group I sub-total:</b>	<u>HK\$353,160,000</u>		<u>HK\$331,910,000</u>

## Group II — Taiwan property interests held for own use

Property	Capital value in the existing state as at 31 March 2002	Percentage of property interest valued attributable to the Group	Capital value attributable to the Group as at 31 March 2002
14. Various factories and offices at Nos. 75 & 77 Kwang-Fu Road Hsin Sing Subsection Chung Sing Section Hu Ko Hsiang, Hsin Chu County Taiwan	HK\$65,670,000	100%	HK\$65,670,000
15. Industrial complex at No. 372 Cheng Hsin Road — Section 2 Hsin Juang Ze Section Hsin Feng Hsiang, Hsin Chu County Taiwan	HK\$99,950,000	58%	HK\$57,970,000
<b>Group II sub-total:</b>	<u>HK\$165,620,000</u>		<u>HK\$123,640,000</u>

## Group III — PRC property interests held for investment

Property	Capital value in the existing state as at 31 March 2002	Percentage of property interest valued attributable to the Group	Capital value attributable to the Group as at 31 March 2002
16. 6 flats in Enji Garden Jia-1 Wanshou Road Haidei District, Beijing The People's Republic of China	HK\$4,040,000	87.9%	HK\$3,550,000
17. Units Nos. 303 & 304 on Level 3 of Block 1 Haibin Garden Xinhua Road Shekou Industrial Area Shenzhen, Guangdong Province The People's Republic of China	HK\$1,040,000	87.9%	HK\$910,000
<b>Group III sub-total:</b>	<u>HK\$5,080,000</u>		<u>HK\$4,460,000</u>

## Group IV — PRC property interest to be acquired

Property	Capital value in the existing state as at 31 March 2002	Percentage of property interest valued attributable to the Group	Capital value attributable to the Group as at 31 March 2002
18. Industrial Complex at No. 95 Jiubin North Road Yicheng Town Yixing City, Jiangsu Province The People's Republic of China	No Commercial Value	—	No Commercial Value
	_____		_____
<b>Grand Total:</b>	<u>HK\$523,860,000</u>		<u>HK\$460,010,000</u>

## VALUATION CERTIFICATE

## Group I — PRC property interests held for own use

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2002
1. 3 flats and 8 stores in Enji Garden, Jia-1 Wanshou Road, Haidei District, Beijing, The People's Republic of China	<p>The properties comprises 3 apartments and 8 basement stores completed in 1992 or 1993 within a residential development of over 20 blocks of 5/6 storeys apartment buildings.</p> <p>The total gross floor area of the apartments is 312.8 sq.m. and that of the basement stores is 166.2 sq.m..</p> <p>The land use term of the properties is not specified in the Building Ownership Certificates provided.</p>	All units are vacant.	HK\$2,360,000 (87.9% interest attribute to the Group HK\$2,070,000)

*Note:*

1. The properties concerned are Apartment Unit 301 on Level 3 in Block D of Row 14, Apartment Unit 502 on Level 5 in Block D on Row 17, Apartment Unit 401 on Level 4 in Block C of Row 19, Basement Units 1 and 9 in Block D of Row 11, Basement Unit 5 in Block D of Row 14, Basement Units 8 and 9 in Block D in Row 17 and Basement Units 5, 6 and 8 in Block C of Row 19.
2. The significant points of the Legal Opinions are summarised as follows:
  - (i) Shenzhen Lam Soon Edible Oils Company Limited is a Sino-foreign joint venture company, which has been duly approved and is validly existing under the laws of PRC.
  - (ii) The registered capital of the joint venture company is US\$12 million which has been contributed by China Merchants Investment And Development (Shenzhen) Company Limited (the "Party A") and Gladko Industries Ltd. (the "Party B") in amounts of US\$0.6 million and US\$11.4 million respectively.
  - (iii) The profit/loss sharing ratio among the Party A and the Party B is 5% and 95% respectively.
  - (iv) Pursuant to the Building Ownership Certificates Nos. 00001, 00002, 00003 and 00004, Beijing Branch of the joint venture company has obtained the land use rights and building ownership rights of the units specified in Note 1 above.
  - (v) The joint venture company has the rights to use the properties and the rights to lease, transfer or mortgage the properties to both local and overseas parties. However, the PRC lawyer cannot confirm that no additional land premium shall be paid in future transfer of the properties as the developer of Enji Garden obtained the land use rights by way of administrative allocation.
3. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject properties attributes to the joint venture company.
  - (ii) The joint venture company is in possession of proper legal title to the properties and entitled to transfer the properties, as a whole or on a strata-titled basis freely.
  - (iii) We have assumed no extra land premium and other onerous fees payable to any government authorities and third parties upon selling the properties in our valuation.
4. As confirmed by the Group, the joint venture company is a 87.9% owned subsidiary of the Group attributable via the Group's 92.5% indirect interest in the Party B.

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2002												
2. Factory Compound at Lots Nos. K202-008(1), K202-008(2), K202-009 and K202-010, Nankang Road, Shekou Industrial Area, Nanshan District, Shenzhen, Guangdong Province, The People's Republic of China	<p>The property comprises a portion of a factory compound erected with a number of buildings/structures. The buildings concerned include a wheat silo building with 18 cylindrical storage towers, a mill building and a warehouse building all completed in around 1995. The Lot K202-009 is vacant and reserved for future development.</p> <p>The total site area of the four lots concerned is 15,650.4 sq.m..</p> <p>The total gross floor area of the buildings is 32,478.34 sq.m. with the following breakdown:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: center;">No. of storey</th> <th style="text-align: center;">Sq.m.</th> </tr> </thead> <tbody> <tr> <td>Wheat silo building (including 18 storage towers)</td> <td style="text-align: center;">14</td> <td style="text-align: right;">7,214.66</td> </tr> <tr> <td>Mill building</td> <td style="text-align: center;">10</td> <td style="text-align: right;">19,779.54</td> </tr> <tr> <td>Warehouse</td> <td style="text-align: center;">4</td> <td style="text-align: right;">5,484.14</td> </tr> </tbody> </table> <p>Land use rights have been granted for a term of 30 years from 23 June 1990 to 22 June 2020 for industrial and warehouse uses.</p>		No. of storey	Sq.m.	Wheat silo building (including 18 storage towers)	14	7,214.66	Mill building	10	19,779.54	Warehouse	4	5,484.14	<p>The property except the vacant land is owner-occupied as production plant, warehouse and storage towers.</p>	<p>HK\$230,000,000 (majority interest attributable to the Group as detailed in Note 5 HK\$220,000,000)</p>
	No. of storey	Sq.m.													
Wheat silo building (including 18 storage towers)	14	7,214.66													
Mill building	10	19,779.54													
Warehouse	4	5,484.14													

## Notes:

1. The significant points of the Legal Opinions regarding Lots Nos. K202-008(1) and K202-010 are summarised as follows:
  - (i) Shekou Lam Soon Flour Mills Company Limited ("Flour Mills") has been duly approved and is validly existing under the laws of PRC. It is a foreign company wholly owned by Lam Soon (China) Holdings Company Limited.
  - (ii) According to a Land Use Rights Transfer Contract dated 3 November 1992 between Flour Mills and China Merchants Property (Shenzhen) Company Limited, and Realty Title Certificate No. 0313133 dated 17 May 1996, Flour Mills has obtained the land use rights of Lot No. K202-008(1) and the building ownership rights of the wheat silo building with 6 of storage towers erected thereon for a term until 22 June 2020. The site area of this lot is 1,646.0 sq.m. and the gross floor area of the building and the 6 storage towers erected thereon is 5,015.41 sq.m.
  - (iii) According to the Land Use Rights Transfer Contract dated 3 November 1992 between Flour Mills and China Merchants Property (Shenzhen) Company Limited and Realty Title Certificate No. 深房地字 0312768 dated 13 May 1996, Flour Mills has obtained the land use rights of Lot No. K202-010 and building ownership rights of the mill building and the warehouse erected thereon for a term until 22 June 2020. The site area of this lot is 8,250.1 sq.m. and the total gross floor area of the two buildings erected thereon is 25,263.68 sq.m..
  - (iv) Flour Mills has the rights to use, lease, transfer or mortgage the property.

2. The significant points of the Legal Opinions regarding Lots Nos. K202-008(2) and K202-009 are summarised as follows:
  - (i) Shekou Lam Soon Silo Company Limited is a Sino-foreign joint venture company, which has been duly approved and is validly existing under the laws of PRC.
  - (ii) The registered capital of the joint venture company is US\$9.5 million which has been contributed by Lam Soon Silos Investments Limited, Mitsui & Co. Limited, Mitsui & Co. (H.K.) Limited and China Merchants Harbour (Shenzhen) Company Limited in a proportion of 89.1%, 8.415%, 1.485% and 1% respectively.
  - (iii) The profit/loss sharing ratio among the investors is in the same ratio as their contribution in the registered capital of the joint venture company.
  - (iv) According to a Land Use Right Transfer Contract dated 3 November 1992 made between China Merchants Property (Shenzhen) Company Limited and the joint venture company, and Realty Title Certificate No. 0313134 dated 17 May 1996, the joint venture company has obtained the land use rights of Lot No. K202-008(2) and the building ownership rights of the 12 storage towers for a term until 22 June 2020. The site area of this lot is 2,424.2 sq.m. and the 12 storage towers have a total gross floor area of 2,199.25 sq.m..
  - (v) According to a Land Use Right Transfer Contract dated 3 November 1992 made between China Merchants Property (Shenzhen) Company Limited and the joint venture company, and Realty Title Certificate No. 0312765 dated 13 May 1996, the joint venture company has obtained the land use rights of Lot No. K202-009 for a term until 22 June 2020. The site area of this lot is 3,330.1 sq.m..
  - (vi) The joint venture company has the rights to use, lease, transfer or mortgage the property.
3. The vacant lot K202-009 comprises a small land in relation to the size of whole compound. In view of keeping the unity of the site as a whole, the owners do not plan to sell this land. On the other hand, the owners do not have any proposal now to erect structure(s) on this. The lot does not have an immediate development value.
4. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject property attributes to Flour Mills and the joint venture company.
  - (ii) Both companies in Note 4(i) are in possession of proper legal titles to the property and entitled to transfer the property freely.
5. As confirmed by the Group, the Group is attributable to 100% of the property interest in Lots Nos. K202-008(1) and K202-010 via one of its wholly owned subsidiary, Lam Soon (China) Holdings Company, and 89.1% property interest in Lots Nos. K202-008(2) and K202-009 via another wholly owned subsidiary, Lam Soon Silos Investments Limited.

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2002																											
3. Factory Compound at Lot No. K202-011, Nankang Road, Shekou Industrial Area, Nanshan District, Shenzhen, Guangdong Province, The People's Republic of China	<p>The property comprises a portion of a factory compound erected with a number of buildings/structures.</p> <p>The site area of the lot is 26,849.7 sq.m..</p> <p>The total gross floor area of the structures concerned, which were generally completed in around 1995, is 28,763.77 sq.m.. The area breakdown and details of the structures are as follows:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th></th> <th style="text-align: center;">No. of storey</th> <th style="text-align: center;">Sq.m.</th> </tr> </thead> <tbody> <tr> <td>Factory</td> <td style="text-align: center;">4</td> <td style="text-align: right;">21,599.83</td> </tr> <tr> <td>Office/canteen building</td> <td style="text-align: center;">4</td> <td style="text-align: right;">3,132.13</td> </tr> <tr> <td>Maintenance workshop</td> <td style="text-align: center;">1</td> <td style="text-align: right;">613.74</td> </tr> <tr> <td>Sewage treatment plant</td> <td style="text-align: center;">2</td> <td style="text-align: right;">123.46</td> </tr> <tr> <td>Transformer/boiler room</td> <td style="text-align: center;">1</td> <td style="text-align: right;">415.56</td> </tr> <tr> <td>Purifying factory</td> <td style="text-align: center;">3</td> <td style="text-align: right;">1,263.13</td> </tr> <tr> <td>Pump room</td> <td style="text-align: center;">1</td> <td style="text-align: right;">140.82</td> </tr> <tr> <td>22 oil tanks</td> <td style="text-align: center;">—</td> <td style="text-align: right;">1,475.10</td> </tr> </tbody> </table> <p>Land use right has been granted for a term of 30 years from 28 April 1991 to 27 April 2021 for industrial uses.</p>		No. of storey	Sq.m.	Factory	4	21,599.83	Office/canteen building	4	3,132.13	Maintenance workshop	1	613.74	Sewage treatment plant	2	123.46	Transformer/boiler room	1	415.56	Purifying factory	3	1,263.13	Pump room	1	140.82	22 oil tanks	—	1,475.10	The property is owner-occupied as office, production plant, ancillary structures, oil tanks and storage building.	<p>HK\$77,410,000 (87.9% interest attributable to the Group HK\$68,040,000)</p>
	No. of storey	Sq.m.																												
Factory	4	21,599.83																												
Office/canteen building	4	3,132.13																												
Maintenance workshop	1	613.74																												
Sewage treatment plant	2	123.46																												
Transformer/boiler room	1	415.56																												
Purifying factory	3	1,263.13																												
Pump room	1	140.82																												
22 oil tanks	—	1,475.10																												

*Notes:*

1. As no building ownership rights certificate has been issued in respect of further two oil tanks and a leached sand store erected on the subject land, we have ignored their values in our assessment.
2. The significant points of the Legal Opinions are summarised as follows:
  - (i) Shenzhen Lam Soon Edible Oils Company Limited is a Sino-foreign joint venture company, which has been duly approved and is validly existing under the laws of PRC.
  - (ii) The registered capital of the joint venture company is US\$12 million which has been contributed by China Merchants Investment And Development (Shenzhen) Company Limited (the "Party A") and Gladko Industries Ltd. (the "Party B") in amounts of US\$0.6 million and US\$11.4 million respectively.
  - (iii) The profit/loss sharing ratio among the Party A and the Party B is 5% and 95% respectively.
  - (iv) According to a Land Use Right Transfer Contract dated 3 November 1992 made between the joint venture company and China Merchants Investment And Development (Shenzhen) Company Limited, and Realty Title Certificate No. 0312767 dated 13 May 1996, the joint venture company has obtained the land use rights of Lot K202-011 and building ownership rights of eight buildings/structures erected thereon for a term until 27 April 2021. The site area of the lot is 26,849.7 sq.m. and the eight structures/buildings erected thereon have a total gross floor area of 28,763.77 sq.m.
  - (v) The joint venture company has the rights to use, lease, transfer or mortgage the property.

3. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject property attributes to the joint venture company.
  - (ii) The joint venture company is in possession of proper legal title to the property and entitled to transfer the property freely.
4. As confirmed by the Group, the joint venture company is a 87.9% owned subsidiary of the Group attributable via the Group's 92.5% indirect interest in the Party B.



	<b>Property</b>	<b>Description and tenure</b>	<b>Details of occupancy</b>	<b>Capital value in existing state as at 31 March 2002</b>
4.	Units Nos. 645–664 on Level 6 and Nos. 925–930 on Level 9, Taoyuan Single Apartments Building, Nanshan Avenue, Nanshan District, Shenzhen, Guangdong Province, The People’s Republic of China	<p>The properties comprise 26 apartment units completed in 1993 within a development with three 16-storey apartment blocks erected over a common platform.</p> <p>The total gross floor area of the apartments is 947.91 sq.m..</p> <p>Land use rights are for a term of 50 years expiring on 24 July 2040 for residential uses.</p>	The properties are occupied by the owner as staff quarters.	HK\$2,730,000

*Note:*

1. The significant points of the Legal Opinions are summarised as follows:
  - (i) Shekou Lam Soon Flour Mills Company Limited has been duly approved and is validly existing under the laws of PRC. It is a foreign company wholly owned by Lam Soon (China) Holdings Company Limited.
  - (ii) According to the confirmation of the Shekou Lam Soon Flour Mills Company Limited that all purchase price for the apartment units had been fully paid, and Realty Title Certificates Nos. 0305017–0305042 dated 8 to 18 March 1995, Shekou Lam Soon Flour Mills Company Limited has obtained the land use rights and building ownership rights of the above apartment units having a total gross floor area of 947.91 sq.m. for a term of 50 years until 24 July 2040.
  - (iii) Shekou Lam Soon Flour Mills Company Limited has the rights to use, lease, transfer or mortgage the properties.
2. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject properties attributes to Shekou Lam Soon Flour Mills Company Limited.
  - (ii) Shekou Lam Soon Flour Mills Company Limited is in possession of proper legal title to the properties and entitled to transfer the properties, as a whole or on a strata-titled basis freely.
3. As confirmed by the Group, Shekou Lam Soon Flour Mills Company Limited is a wholly owned subsidiary of the Group.

			<b>Capital value in existing state as at 31 March 2002</b>
<b>Property</b>	<b>Description and tenure</b>	<b>Details of occupancy</b>	
5.	Units Nos. 745–764 on Level 7, Nos. 845–864 on Level 8 and Nos. 931–936 on Level 9, Taoyuan Single Apartments Building, Nanshan Avenue, Nanshan District, Shenzhen, Guangdong Province, The People’s Republic of China	The properties comprise 46 apartment units completed in 1993 within a development with three 16-storey apartment blocks erected over a common platform.  The total gross floor area of the apartments is 1,539.48 sq.m..  Land use rights are for a term of 50 years expiring on 24 July 2040 for residential uses.	The properties are occupied by the owner as staff quarters except Unit No. 859, which is being used as television room for the enjoyment of the staff.  HK\$4,490,000 (87.9% interest attributable to the Group HK\$3,950,000)

*Note:*

1. The significant points of the Legal Opinions are summarised as follows:
  - (i) Shenzhen Lam Soon Edible Oils Company Limited is a Sino-foreign joint venture company, which has been duly approved and is validly existing under the laws of PRC.
  - (ii) The registered capital of the joint venture company is US\$12 million which has been contributed by China Merchants Investment And Development (Shenzhen) Company Limited (the “Party A”) and Gladko Industries Ltd. (the “Party B”) in amounts of US\$0.6 million and US\$11.4 million respectively.
  - (iii) The profit/loss sharing ratio among the Party A and the Party B is 5% and 95% respectively.
  - (iv) According to the confirmation of the joint venture company that all purchase price for the apartment units had been fully paid, and Realty Title Certificates Nos. 0305188–0305233 dated 14 to 15 March 1995, the joint venture company has obtained the land use rights and building ownership rights of the above apartment units having a total gross floor area of 1,539.48 sq.m. for a term of 50 years until 24 July 2040.
  - (v) The joint venture company has the rights to use the properties and the rights to lease, transfer or mortgage the properties to both local and overseas parties.
2. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject properties attributes to the joint venture company.
  - (ii) the joint venture company is in possession of proper legal title to the properties and entitled to transfer the properties, as a whole or on a strata-titled basis, freely.
3. As confirmed by the Group, the joint venture company is a 87.9% owned subsidiary of the Group attributable via the Group’s 92.5% indirect interest in the Party B.

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2002
6. Units Nos. 504–506 on Level 5, Nos. 601–606 on Level 6 and Nos. 904–906 on Level 9, Huaguoshan Mansion, Gongyuan Road, Shekou Industrial Area, Shenzhen, Guangdong Province, The People's Republic of China	<p>The properties comprise 12 apartment units in a residential development completed in 1993 with two 23-storey apartment blocks erected over a common retail platform.</p> <p>The total gross floor area of the apartments is 1,026.36 sq.m..</p> <p>Land use rights are for a term of 50 years expiring on 12 August 2043 for residential uses.</p>	The properties are occupied by the owners as staff quarters.	HK\$3,770,000

*Note:*

1. The significant points of the Legal Opinions are summarised as follows:
  - (i) Shekou Lam Soon Flour Mills Company Limited has been duly approved and is validly existing under the laws of PRC. It is a foreign company wholly owned by Lam Soon (China) Holdings Company Limited.
  - (ii) According to Realty Title Certificates Nos. 0303834, 0303845–0303855 dated 6 to 10 January 1995, Shekou Lam Soon Flour Mills Company Limited has obtained the land use rights and building ownership rights of the above apartment units having a total gross floor area of 1,026.36 sq.m. for a term of 50 years until 12 August 2043.
  - (iii) Shekou Lam Soon Flour Mills Company Limited has the rights to use, lease, transfer or mortgage the properties.
2. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject properties attributes to Shekou Lam Soon Flour Mills Company Limited.
  - (ii) Shekou Lam Soon Flour Mills Company Limited is in possession of proper legal title to the properties and entitled to transfer the properties, as a whole or on a strata-titled basis freely.
3. As confirmed by the Group, Shekou Lam Soon Flour Mills Company Limited is a wholly owned subsidiary of the Group.

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2002
7. Units Nos. 501–503 on Level 5, Nos. 901–903 on Level 9, Huaguoshan Mansion, Gongyuan Road, Shekou Industrial Area, Shenzhen, Guangdong Province, The People’s Republic of China	<p>The properties comprise 6 apartment units in a residential development completed in 1993 with two 23-storey apartment blocks erected over a common retail platform.</p> <p>The total gross floor area of the apartments is 513.08 sq.m..</p> <p>Land use rights are for a term of 50 years expiring on 12 August 2043 for residential uses.</p>	The properties are occupied by the owners as staff quarters.	HK\$1,890,000 (87.9% interest attributable to the Group HK\$1,660,000)

*Note:*

1. The significant points of the Legal Opinions are summarised as follows:
  - (i) Shenzhen Lam Soon Edible Oils Company Limited is a Sino-foreign joint venture company, which has been duly approved and is validly existing under the laws of PRC.
  - (ii) The registered capital of the joint venture company is US\$12 million which has been contributed by China Merchants Investment And Development (Shenzhen) Company Limited (the “Party A”) and Gladko Industries Ltd. (the “Party B”) in amounts of US\$0.6 million and US\$11.4 million respectively.
  - (iii) The profit/loss sharing ratio among the Party A and the Party B is 5% and 95% respectively.
  - (iv) According to Realty Title Certificates Nos. 0303835–0303839 and 0303844 dated 5 to 10 January 1995, the joint venture company has obtained the land use rights and building ownership rights of the above apartment units having a total gross floor area of 513.08 sq.m. for a term of 50 years until 12 August 2043.
  - (v) The joint venture company has the rights to use the properties and the rights to lease, transfer or mortgage the properties to both local and overseas parties.
2. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject properties attributes to the joint venture company.
  - (ii) the joint venture company is in possession of proper legal title to the properties and entitled to transfer the properties, as a whole or on a strata-titled basis, freely.
3. As confirmed by the Group, the joint venture company is a 87.9% owned subsidiary of the Group attributable via the Group’s 92.5% indirect interest in the Party B.

	<b>Property</b>	<b>Description and tenure</b>	<b>Details of occupancy</b>	<b>Capital value in existing state as at 31 March 2002</b>
8.	Units No. 502 on Level 5 of Block 2 and No. 104 on Level 1 of Block 3, Haibin Garden, Xinhua Road, Shekou Industrial Area, Shenzhen, Guangdong Province, The People's Republic of China	<p>The properties comprise 2 apartment units completed in 1989 or 1990 within a residential/commercial development with three 20-storey apartment blocks and 2 blocks of 3-storey commercial buildings.</p> <p>The total gross floor area of the apartments is 218 sq.m..</p> <p>Land use rights are for a term of 30 years expiring on 21 February 2018 for residential uses.</p>	The properties are occupied by the owners as staff quarters.	HK\$860,000

*Note:*

1. The significant points of the Legal Opinions are summarised as follows:
  - (i) Shekou Lam Soon Flour Mills Company Limited has been duly approved and is validly existing under the laws of PRC. It is a foreign company wholly owned by Lam Soon (China) Holdings Company Limited.
  - (ii) According to the confirmation of Shekou Lam Soon Flour Mills Company Limited that all purchase price for the units had been fully paid, and Realty Title Certificates Nos. 0018160 and 0018161 dated 5 November 1992, Shekou Lam Soon Flour Mills Company Limited has obtained the land use rights and building ownership rights of the above apartment units having a total gross floor area of 218 sq.m. for a term of 30 years until 21 February 2018.
  - (iii) Shekou Lam Soon Flour Mills Company Limited has the rights to use, lease, transfer or mortgage the properties.
2. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject properties attributes to Shekou Lam Soon Flour Mills Company Limited.
  - (ii) Shekou Lam Soon Flour Mills Company Limited is in possession of proper legal title to the properties and entitled to transfer the properties, as a whole or on a strata-titled basis freely.
3. As confirmed by the Group, Shekou Lam Soon Flour Mills Company Limited is a wholly owned subsidiary of the Group.

			<b>Capital value in existing state as at 31 March 2002</b>
<b>Property</b>	<b>Description and tenure</b>	<b>Details of occupancy</b>	
9. Units Nos. 102–104 on Level 1, No. 804 on Level 8 of Block 1 and No. 201 on Level 2 of Block 2, Haibin Garden, Xinhua Road, Shekou Industrial Area, Shenzhen, Guangdong Province, The People’s Republic of China	<p>The properties comprise 5 apartment units completed in 1989 or 1990 within a residential/commercial development with three 20-storey apartment blocks and 2 blocks of 3-storey commercial buildings.</p> <p>The total gross floor area of the apartments is 591 sq.m..</p> <p>Land use rights are for a term of 30 years expiring on 21 February 2018 for residential uses.</p>	The properties are occupied by the owners as staff quarters.	<p>HK\$2,360,000 (87.9% interest attributable the Group HK\$2,070,000)</p>

*Note:*

1. The significant points of the Legal Opinions are summarised as follows:
  - (i) Shenzhen Lam Soon Edible Oils Company Limited is a Sino-foreign joint venture company, which has been duly approved and is validly existing under the laws of PRC.
  - (ii) The registered capital of the joint venture company is US\$12 million which has been contributed by China Merchants Investment And Development (Shenzhen) Company Limited (the “Party A”) and Gladko Industries Ltd. (the “Party B”) in amounts of US\$0.6 million and US\$11.4 million respectively.
  - (iii) The profit/loss sharing ratio among the Party A and the Party B is 5% and 95% respectively.
  - (iv) According to the confirmation of the joint venture company that all purchase price for the units had been fully paid, and Realty Title Certificates Nos. 0018687, 0018690, 0018691 for Units 102–104 of Block 1 dated 5 November 1992, 0059875 for Unit 804 of Block 1 dated 29 May 1995 and 0303573 for Unit 201 of Block 2 dated 23 December 1994 respectively, the joint venture company has obtained the land use rights and building ownership rights of the above apartment units having a total gross floor area of 591 sq.m. for a term of 30 years until 21 February 2018.
  - (v) The joint venture company has the rights to use the properties and the rights to lease, transfer or mortgage the properties to both local and overseas parties.
2. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject properties attributes to the joint venture company.
  - (ii) the joint venture company is in possession of proper legal title to the properties and entitled to transfer the properties, as a whole or on a strata-titled basis, freely.
3. As confirmed by the Group, the joint venture company is a 87.9% owned subsidiary of the Group attributable via the Group’s 92.5% indirect interest in the Party B.

	<b>Property</b>	<b>Description and tenure</b>	<b>Details of occupancy</b>	<b>Capital value in existing state as at 31 March 2002</b>
10.	Units Nos. 204–206, 209–210 on Level 2, Yinghui Mansion, Bitao Court, Xinghua Road, Nanshan District, Shenzhen, Guangdong Province, The People's Republic of China	<p>The properties comprise 5 apartment units in an 8-storey residential building with retail units on ground floor completed in 1993.</p> <p>The total gross floor area of the apartments is 473.80 sq.m..</p> <p>Land use rights have been granted for a term of 50 years from 10 May 1980 to 10 May 2030 for residential uses.</p>	The properties are occupied by the owner as staff quarters.	HK\$1,390,000

*Notes:*

1. The significant points of the Legal Opinions are summarised as follows:
  - (i) Shekou Lam Soon Flour Mills Company Limited has been duly approved and is validly existing under the laws of PRC. It is a foreign company wholly owned by Lam Soon (China) Holdings Company Limited.
  - (ii) According to the Realty Title Certificates Nos. 0200084–0200088 dated 27 July 1993, Shekou Lam Soon Flour Mills Company Limited has obtained the land use rights and building ownership rights of the units having a total gross floor area of 473.80 sq.m. The lease term, by reference of a computerized realty title search, is 50 years until 10 May 2030.
  - (iii) Shekou Lam Soon Flour Mills Company Limited has the rights to use the properties and the rights to lease, transfer or mortgage the properties to both local and overseas parties.
2. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject properties attributes to Shekou Lam Soon Flour Mills Company Limited.
  - (ii) Shekou Lam Soon Flour Mills Company Limited is in possession of proper legal titles to the properties and entitled to transfer the properties, as a whole or on a strata-titled basis, freely.
3. As confirmed by the Group, Shekou Lam Soon Flour Mills Company Limited is a wholly owned subsidiary of the Group.

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2002								
11. Industrial Complex at Anfa Warehouse Lot, Northern Bank of Luoqi, Dashi Town, Panyu, Guangzhou, Guangdong Province, The People's Republic of China	<p>The property comprises a 2-storey main factory with ancillary office, a warehouse, a shelter for storage, a temporary warehouse, a guardhouse and an old village house erected on a fenced lot. Other than the main factory, other buildings are of single storey. All structures were completed in around 1994. The site area of the land is 17,038 sq.m.. A portion of the land is overgrown and reserved for future expansion.</p> <p>The gross floor areas of the structures are as follows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th style="text-align: right;"><i>Sq.m.</i></th> </tr> </thead> <tbody> <tr> <td>Main factory</td> <td style="text-align: right;">4,184.25</td> </tr> <tr> <td>Warehouse</td> <td style="text-align: right;">982.48</td> </tr> <tr> <td>Various outbuildings/ temporary structures</td> <td style="text-align: right;">1,368.18</td> </tr> </tbody> </table> <p>Land use rights have been granted for a term expiring on 25 October 2043 for industrial uses.</p>		<i>Sq.m.</i>	Main factory	4,184.25	Warehouse	982.48	Various outbuildings/ temporary structures	1,368.18	The property, except the vacant land, is owner-occupied as production plant, warehouse and ancillary office.	<p>HK\$11,000,000 (95.2% interest attributable to the Group HK\$10,470,000)</p>
	<i>Sq.m.</i>										
Main factory	4,184.25										
Warehouse	982.48										
Various outbuildings/ temporary structures	1,368.18										

## Notes:

1. As no building ownership certificate has been issued in respect of the warehouse and various outbuildings/temporary structures erected on the land, we have disregarded their values in our valuation.
2. The significant points of the Legal Opinions are summarised as follows:
  - (i) Guangzhou Lam Soon Homecare Products Limited is a Sino-foreign (Hong Kong) joint venture company, which has been duly approved and is validly existing under the laws of PRC.
  - (ii) The registered capital of the joint venture company is HK\$21 million which has been contributed by Guangdong Province Dashi Town Luoqi Economic Co-operation (the "Party A"), Lam Soon (Pan Yu) Industrial Company Limited (the "Party B"), and Lam Soon Marketing Services (Guangdong) Company Limited (the "Party C") in amounts of HK\$1 million, HK\$6 million and HK\$14 million respectively.
  - (iii) The Party C has transferred all its interest in the joint venture company to the Party B.
  - (iv) The profit/loss sharing ratio among the Party A and the Party B now is 5% and 95% respectively.
  - (v) According to the State-owned Land Use Rights Certificates Nos. (95) 04-000403 and 04-000107, the joint venture company has obtained the land use rights of the subject land, with a site area of 17,038 sq.m., for a term until 25 October 2043.
  - (vi) According to the Building Ownership Certificate No. 4706225 dated 1 July 1995, the joint venture company has obtained the building ownership rights of the main factory having a gross floor area of 4,184.25 sq.m..
  - (vii) The joint venture company has the rights to use the property and the rights to lease, transfer or mortgage the property to both local and overseas parties.



3. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject property attributes to the joint venture company.
  - (ii) The joint venture company is in possession of proper legal title to the property and entitled to transfer the property freely.
4. As confirmed by the Group, the joint venture company is a 95.2% owned subsidiary of the Group attributable via the Group's interest in the Party B in accordance with their capital contribution.

	<b>Property</b>	<b>Description and tenure</b>	<b>Details of occupancy</b>	<b>Capital value in existing state as at 31 March 2002</b>
12.	Factory at No. 22 Hongqi Road, Hongqi District, Zhuhai, Guangdong Province, The People's Republic of China	<p>The property comprises a single-storey factory with a 2-storey office annex completed in 1995.</p> <p>The site area and the gross floor area of the property are 61,050.18 sq.m. and 23,544.73 sq.m. respectively.</p> <p>Land use rights have been granted for a term expiring on 7 November 2044 for industrial and ancillary facilities uses.</p>	The property is owner-occupied for production of can lids and packaging products.	HK\$11,600,000

*Notes:*

1. The significant points of the Legal Opinions are summarised as follows:
  - (i) Zhuhai LSO Ends Packaging Limited has been duly approved and is validly existing under the laws of PRC. It is a foreign company wholly owned by LSO (Guangdong) Investments Company Limited.
  - (ii) According to a State-owned Land Use Rights Contract dated 20 May 1996 made between Zhuhai City State-owned Land Bureau and Zhuhai LSO Ends Packaging Limited, and Realty Title Certificate No. 0837736 dated 4 December 1997, Zhuhai LSO Ends Packaging Limited has obtained the land use rights of the land having a site area of 61,050.18 sq.m. and building ownership rights of the building having a gross floor area of 23,544.73 sq.m. for a term until 7 November 2044.
  - (iii) Zhuhai LSO Ends Packaging Limited has the rights to use the property and the rights to lease, transfer or mortgage the property to local and overseas parties.
2. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject property attributes to Zhuhai LSO Ends Packaging Limited.
  - (ii) Zhuhai LSO Ends Packaging Limited is in possession of proper legal title to the property and entitled to transfer the property freely.
3. As confirmed by the Group, Zhuhai LSO Ends Packaging Limited is a wholly owned subsidiary of the Group.

	<b>Property</b>	<b>Description and tenure</b>	<b>Details of occupancy</b>	<b>Capital value in existing state as at 31 March 2002</b>
13.	Dormitory at No. 33 Hongqi Road, Hongqi District, Zhuhai, Guangdong Province, The People's Republic of China	<p>The property comprises a 5-storey dormitory with over 20 rooms, a canteen and an entertainment room completed in 1995.</p> <p>The site area and the gross floor area of the property are 3,537.03 sq.m. and 3,594.8 sq.m. respectively.</p> <p>Land use rights have been granted for a term expiring on 13 March 2046 for residential uses.</p>	The property is owner-occupied as staff quarters.	HK\$3,300,000

*Notes:*

1. The significant points of the Legal Opinions are summarised as follows:
  - (i) Zhuhai LSO Ends Packaging Limited has been duly approved and is validly existing under the laws of PRC. It is a foreign company wholly owned by LSO (Guangdong) Investments Company Limited.
  - (ii) According to a State-owned Land Use Rights Contract dated 13 March 1996 made between Zhuhai City State-owned Land Bureau and Zhuhai LSO Ends Packaging Limited, and Realty Title Certificate No. 0837737 dated 5 December 1997, Zhuhai LSO Ends Packaging Limited has obtained the land use rights of the land having a site area of 3,537.03 sq.m. and the building ownership rights of the building having a gross floor area of 3,594.8 sq.m. for a term until 13 March 2046.
  - (iii) Zhuhai LSO Ends Packaging Limited has the rights to use the property and the rights to lease, transfer or mortgage the property to both local and overseas parties.
2. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject property attributes to Zhuhai LSO Ends Packaging Limited.
  - (ii) Zhuhai LSO Ends Packaging Limited is in possession of proper legal title to the property and entitled to transfer the property freely.
3. As confirmed by the Group, Zhuhai LSO Ends Packaging Limited is a wholly owned subsidiary of the Group.

## VALUATION CERTIFICATE

## Group II — Taiwan property interests held for own use

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2002												
14. Various factories and offices at Nos. 75 & 77 Kwang-Fu Road, Hsin Sing Subsection, Chung Sing Section, Hu Ko Hsiang, Hsin Chu County, Taiwan	<p>The property comprises a 2-storey flatted factory, a 4-storey office building plus a basement and a guardhouse, all completed in 1988, and the Levels 1 and 4 in a 4-storey flatted factory completed in 1990.</p> <p>The total site area of the three lots is 12,966.54 sq.m..</p> <p>The gross floor areas are as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>Sq.m.</th> </tr> </thead> <tbody> <tr> <td>2 floors in 4-storey factory</td> <td>8,111.21</td> </tr> <tr> <td>2-storey factory</td> <td>6,302.10</td> </tr> <tr> <td>Office building</td> <td>4,656.90</td> </tr> <tr> <td>Guardhouse</td> <td><u>17.77</u></td> </tr> <tr> <td><b>Total</b></td> <td><b><u>19,087.98</u></b></td> </tr> </tbody> </table> <p>The land is of freehold interests.</p>		Sq.m.	2 floors in 4-storey factory	8,111.21	2-storey factory	6,302.10	Office building	4,656.90	Guardhouse	<u>17.77</u>	<b>Total</b>	<b><u>19,087.98</u></b>	<p>A portion on the Level 3 in office building and two car parking spaces have been leased for a term of 1 year until 10 November 2002 at a monthly rent of NT\$69,455 inclusive of management fees.</p> <p>Portions in the basement of the office building and Level 1 of the 4-storey factory have been leased for staff canteen and electricity room uses respectively at a total rent of NT\$22,800 per month. The remaining floor spaces are owner-occupied for manufacturing or administration office uses.</p>	HK\$65,670,000
	Sq.m.														
2 floors in 4-storey factory	8,111.21														
2-storey factory	6,302.10														
Office building	4,656.90														
Guardhouse	<u>17.77</u>														
<b>Total</b>	<b><u>19,087.98</u></b>														

## Notes:

1. The subject floor spaces in the 4-storey factory are the Level 1 (i.e. the ground floor) and the Level 4 (plus its mezzanine floor) together with a half share for the common parts of this building.
2. The significant points of the Legal Opinions are summarised as follows:
  - (i) Lam Soon Industrial Inc. has been duly approved and is validly existing under the laws of Taiwan.
  - (ii) According to the Land Ownership Certificates and Building Ownership Certificates, the Land and Building Registration Records of the Land Bureau in Hsin Hu, Hsin Chu, and the confirmation of Lam Soon Industrial Inc., Lam Soon Industrial Inc. is the owner of the property.
  - (iii) Building Registration Nos. of the buildings concerned are 174-004 for Level 1, 176-007 for Level 4 and the mezzanine floor and, 1/2 share in 176-008 for the common parts in the 4-storey factory, 176-001 for the 2-storey factory, 176-002 for the office building and 176-003 for the guardhouse.
  - (iv) Portion of Level 3 in the office building plus two car parking spaces have been leased for a term until 10 November 2002 at a monthly rent of NT\$69,455.
  - (v) Portions in the basement of the office building and Level 1 of the 4-storey factory are leased for staff canteen and electricity room for a total monthly rent of NT\$22,800.
  - (vi) The existing uses of the leased portions as staff canteen and electricity room does not comply with permitted use. As the existing use of such portions does not comply with the permitted use, the owner and the occupier of the leased premises are subject to (a) fine ranging from NT\$60,000 to NT\$300,000 as a result of breach of permitted

use licence, (b) fine ranging from NT\$10,000 to NT\$50,000 as a result of using unauthorised premises for manufacturing purpose and (c) fine ranging from NT\$5,000 to NT\$20,000 for failure to register the change of use of the leased premises and the relevant Government authorities are entitled to request the leased premises ceased to be used for unpermitted purposes. Further, the affected Tenant may have the right to claim against Lam Soon Industrial Inc. if it is not allowed to use the leased premises for purposes designated in the related Tenancy Agreement.

- (vii) Lam Soon Industrial Inc. has the rights to use the property and to lease, transfer or mortgage the property to any third parties.
3. We have relied on the Legal Opinions and prepared our valuation on the following basis:
- (i) the benefits brought by the two leases have been ignored due to the uses designated therein do not comply with the permitted use.
  - (ii) 100% interest in the subject property attributes to Lam Soon Industrial Inc..
  - (iii) Lam Soon Industrial Inc. is in possession of proper legal title to the property and entitled to transfer the property freely.
4. As confirmed by the Group, Lam Soon Industrial Inc. is a wholly owned subsidiary of the Group.

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2002
15. Industrial complex at No. 372 Cheng Hsin Road — Section 2, Hsin Juang Ze Section, Hsin Feng Hsiang, Hsin Chu County, Taiwan	The property comprises a 2-storey flatted factory plus a basement, a 4-storey hostel and a guardhouse, all completed in 1991, and a single-storey warehouse completed in 1996.  The total site area is 34,201.00 sq.m. and the floor areas of the buildings are as follows:	The property is occupied by the Group as production plant, storage and staff quarters.	HK\$99,950,000 (58% interest attributable to the Group HK\$57,970,000)
Land Lot Nos. 1415-0000, 1416-0000, 1416-0001, 1417-0000, 1417-0001, 1418-0000, 1419-0000, 1419-0001, 1420-0000, 1420-0001, 1420-0002, 1421-0000, 1422-0000, 1423-0000, 1425-0000, 1426-0000, 1427-0000, 1427-0001, 1428-0000 and 1428-0001			
		<i>Sq.m.</i>	
	Factory	18,750.79	
	Warehouse	5,049.09	
	Hostel	1,900.38	
	Guardhouse	<u>20.81</u>	
	Total	<u><u>25,721.07</u></u>	
	The land is of freehold interests.		

## Notes:

1. The significant points of the Legal Opinions are summarised as follows:
  - (i) Lam Soon Ball Yamamura Inc. has been duly approved and is validly existing under the laws of Taiwan.
  - (ii) According to the Land Ownership Certificates and Building Ownership Certificates, the Land and Building Registration Records of the Land Bureau in Hsin Hu, Hsin Chu, and the confirmation of Lam Soon Ball Yamamura Inc., Lam Soon Ball Yamamura Inc. is the owner of the property.
  - (iii) The Building Registration Nos. of the buildings concerned are 1143-001 for the factory, 1143-005 for the warehouse, 1143-004 for the hostel and 1143-002 for the guardhouse.
  - (iv) The property is subject to a mortgage in favour of Bank SinoPac for the term from 8 January 2001 to 7 January 2041 for a loan of NT\$180,000,000.
  - (v) Subject to the rights of the mortgagee mentioned in 1 (iv), Lam Soon Ball Yamamura Inc. has the rights to use the property and to lease, transfer or mortgage the property to any third parties.
2. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject property attributes to Lam Soon Ball Yamamura Inc..
  - (ii) Lam Soon Ball Yamamura Inc. is in possession of proper legal title to the property and entitled to transfer the property freely.
3. As confirmed by the Group, Lam Soon Ball Yamamura Inc. is a 58% owned subsidiary of the Group.

## Group III — PRC property interests held for investment

	Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2002
16.	6 flats in Enji Garden, Jia-1 Wanshou Road, Haidei District, Beijing, The People's Republic of China	<p>The properties comprise 6 flats completed in 1992 and 1993 within a residential development of over 20 blocks of 5/6 storeys apartment buildings.</p> <p>The total gross floor area of the apartments is 573.7 sq.m.</p> <p>The land use term of the properties is not specified in the Building Ownership Certificates provided.</p>	Apartment Unit 601 has been leased on a short-term basis until May/June 2002 at a rent of RMB5,000 per month inclusive of management fees and heating, exclusive of other utility charges. Units 402 and 502 are owner-occupied. Other units are vacant.	<p>HK\$4,040,000 (87.9% interest attributable to the Group HK\$3,550,000)</p>

*Note:*

1. The properties concerned are Apartment Units 601 and 602 Level 6 in Block D of Row 11, Apartment Unit 302 on Level 3 in Block D in Row 14, Apartment Unit 501 on Level 5 in Block D of Row 17 and Apartment Units 402 on Level 4 and 502 on Level 5 in Block C of Row 19.
2. The significant points of the Legal Opinions are summarised as follows:
  - (i) Shenzhen Lam Soon Edible Oils Company Limited is a Sino-foreign joint venture company, which has been duly approved and is validly existing under the laws of PRC.
  - (ii) The registered capital of the joint venture company is US\$12 million which has been contributed by China Merchants Investment And Development (Shenzhen) Company Limited (the "Party A") and Gladko Industries Limited (the "Party B") in amounts of US\$0.6 million and US\$11.4 million respectively.
  - (iii) The profit/loss sharing ratio among the Party A and the Party B is 5% and 95% respectively.
  - (iv) Pursuant to the Building Ownership Certificates Nos. 00001, 00002, 00003 and 00004, Beijing Branch of the joint venture company has obtained the land use rights and building ownership rights of the units specified in Note 1 above.
  - (v) Apartment Unit 601 in Block D of Row 11 has been leased for a term until May/June 2002. The lease agreement should only be binding on the parties thereto after the joint venture company obtains the leasing permit and register the lease agreement with the relevant PRC government authority. The relevant PRC government authority may request the joint venture company to apply for the leasing permit and attend to registration of the lease agreement. Such authority also has the right to impose fine. As confirmed by the joint venture company, it has not received any notice from the relevant government authority requesting it to do so.
  - (vi) The joint venture company has the rights to use the properties and the rights to lease, transfer or mortgage the properties to both local and overseas parties. However, the PRC legal adviser cannot confirm that no additional land premium should be paid in future transfer of the properties as the developer of Enji Garden obtained the land use rights by way of administrative allocation.
3. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject properties attributes to the joint venture company.
  - (ii) The joint venture company is in possession of proper legal title to the properties and entitled to transfer the properties, as a whole or on a strata-titled basis freely.
  - (iii) We have assumed no extra land premium and other onerous fees payable to any government authorities and third parties upon selling the properties in our valuation.
4. As confirmed by the Group, the joint venture company is a 87.9% owned subsidiary of the Group attributable via the Group's 92.5% indirect interest in the Party B.

	<b>Property</b>	<b>Description and tenure</b>	<b>Details of occupancy</b>	<b>Capital value in existing state as at 31 March 2002</b>
17.	Units Nos. 303 & 304 on Level 3 of Block 1, Haibin Garden, Xinhua Road, Shekou Industrial Area, Shenzhen, Guangdong Province, The People's Republic of China	<p>The properties comprise 2 apartment units completed in 1990 within a residential/ commercial development with three 20-storey apartment blocks and 2 blocks of 3-storey commercial buildings.</p> <p>The total gross floor area of the apartments is 264 sq.m..</p> <p>Land use rights are for a term of 30 years expiring on 21 February 2018 for residential uses.</p>	The properties are occupied by the owner as staff quarters.	<p>HK\$1,040,000 (87.9% interest attributable to the Group HK\$910,000)</p>

*Notes:*

1. The significant points of the Legal Opinions are summarised as follows:
  - (i) Shenzhen Lam Soon Edible Oils Company Limited is a Sino-foreign joint venture company, which has been duly approved and is validly existing under the laws of PRC.
  - (ii) The registered capital of the joint venture company is US\$12 million which has been contributed by China Merchants Investment And Development (Shenzhen) Company Limited (the "Party A") and Gladko Industries Ltd. (the "Party B") in amounts of US\$0.6 million and US\$11.4 million respectively.
  - (iii) The profit/loss sharing ratio among the Party A and the Party B is 5% and 95% respectively.
  - (iv) According to the confirmation of the joint venture company that all purchase price for the units had been fully paid, and Realty Title Certificates Nos. 0018685 for Unit 303 and 0018686 for Unit 304 both dated 5 November 1992, the joint venture company has obtained the land use rights and building ownership rights of the above apartment units having a total gross floor area of 264 sq.m. for a term of 30 years until 21 February 2018.
  - (v) The joint venture company has the rights to use the properties and the rights to lease, transfer or mortgage the properties to both local and overseas parties.
2. We have relied on the Legal Opinions and prepared our valuation on the following basis:
  - (i) 100% interest in the subject properties attributes to the joint venture company.
  - (ii) the joint venture company is in possession of proper legal title to the properties and entitled to transfer the properties, as a whole or on a strata-titled basis, freely.
3. As confirmed by the Group, the joint venture company is a 87.9% owned subsidiary of the Group attributable via the Group's 92.5% indirect interest in Party B.



## Property IV — PRC property interest to be acquired

Property	Description and tenure	Details of occupancy	Capital value in existing state as at 31 March 2002																																																																																																
18. Industrial Complex at No. 95 Jiubin North Road, Yicheng Town, Yixing City, Jiangsu Province, The People's Republic of China	<p>The property comprises an industrial compound located next to a river. A number of structures have been erected on the site which has a site area of approximately 24,107.4 sq.m.</p> <p>The gross floor area of the structures are as follows:</p> <table border="1"> <thead> <tr> <th>Structures</th> <th>No. of storey</th> <th>Completion Date</th> <th>Gross Floor Area (sq.m.)</th> </tr> </thead> <tbody> <tr><td>Main office building</td><td>6</td><td>1994</td><td>2,528.97</td></tr> <tr><td>No. 1 flour mill building</td><td>6</td><td>1982</td><td>1,951.08</td></tr> <tr><td>No. 2 flour mill building</td><td>6</td><td>1997</td><td>2,819.24</td></tr> <tr><td>Flour packing workshop</td><td>7</td><td>1997</td><td>820.02</td></tr> <tr><td>Two flour warehouses</td><td>1</td><td>1982</td><td>989.76</td></tr> <tr><td>Wheat silo (10,000 tons)</td><td>11</td><td>1997</td><td>1,496.78</td></tr> <tr><td>Wheat silo (2,000 tons)</td><td>6</td><td>1982</td><td>1,477.64</td></tr> <tr><td>Product &amp; by-product warehouse</td><td>2</td><td>1998</td><td>2,788.85</td></tr> <tr><td>By-product warehouse</td><td>2</td><td>1982</td><td>628.75</td></tr> <tr><td>Noodle workshop</td><td>3</td><td>1982</td><td>999.20</td></tr> <tr><td>Noodle warehouse</td><td>1</td><td>1982</td><td>415.99</td></tr> <tr><td>Bran bin</td><td>4</td><td>1982</td><td>729.40</td></tr> <tr><td>Loading/unloading tower</td><td>3</td><td>1982</td><td>190.14</td></tr> <tr><td>Office for warehouse</td><td>1</td><td>1982</td><td>118.53</td></tr> <tr><td>Southern retail shop</td><td>2</td><td>1986</td><td>892.43</td></tr> <tr><td>Northern retail shop</td><td>2</td><td>1994</td><td>594.31</td></tr> <tr><td>Transformer room</td><td>2</td><td>1997</td><td>403.46</td></tr> <tr><td>Maintenance workshop</td><td>1</td><td>1982</td><td>219.00</td></tr> <tr><td>Canteen</td><td>2</td><td>1986</td><td>367.50</td></tr> <tr><td>Shower room</td><td>1</td><td>1986</td><td>162.93</td></tr> <tr><td><b>Sub-total</b></td><td></td><td></td><td><b>20,593.98</b></td></tr> <tr><td>Five temporary warehouses</td><td>1</td><td>—</td><td>3,171.09</td></tr> <tr><td>Booths/shelters</td><td>1</td><td>—</td><td>726.71</td></tr> </tbody> </table>	Structures	No. of storey	Completion Date	Gross Floor Area (sq.m.)	Main office building	6	1994	2,528.97	No. 1 flour mill building	6	1982	1,951.08	No. 2 flour mill building	6	1997	2,819.24	Flour packing workshop	7	1997	820.02	Two flour warehouses	1	1982	989.76	Wheat silo (10,000 tons)	11	1997	1,496.78	Wheat silo (2,000 tons)	6	1982	1,477.64	Product & by-product warehouse	2	1998	2,788.85	By-product warehouse	2	1982	628.75	Noodle workshop	3	1982	999.20	Noodle warehouse	1	1982	415.99	Bran bin	4	1982	729.40	Loading/unloading tower	3	1982	190.14	Office for warehouse	1	1982	118.53	Southern retail shop	2	1986	892.43	Northern retail shop	2	1994	594.31	Transformer room	2	1997	403.46	Maintenance workshop	1	1982	219.00	Canteen	2	1986	367.50	Shower room	1	1986	162.93	<b>Sub-total</b>			<b>20,593.98</b>	Five temporary warehouses	1	—	3,171.09	Booths/shelters	1	—	726.71	The property is generally owner-occupied as production plant, warehouse and ancillary office.	No commercial value
Structures	No. of storey	Completion Date	Gross Floor Area (sq.m.)																																																																																																
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## Notes:

- Pursuant to an Asset Transfer Contract (the "Contract") dated 1 February 2002 made between Jiangsu Jianguan Flour Company Limited (the "Owner"), Lam Soon (China) Holdings Company Limited (the "Purchaser"), and Yixing Grain & Oil Trading (Group) Company (the "Guarantor"), the Owner has agreed to sell certain assets (including the land, the structures/buildings created thereon, and ancillary facilities) to the Purchaser upon such terms and conditions therein contained.
- The significant points of the Legal Opinions are summarised as follows:
  - According to a State-owned Land Use Rights Certificate dated 19 February 1999, the Owner has obtained the land use rights of the property having a site area of 24,107.4 sq.m.. The expiry date of the land use term held by the Owner is 30 September 2037.

- (ii) According to the Contract, the Owner has agreed to transfer certain assets (as set out in the appendices of the Contract) to the Purchaser at a consideration of RMB36 million upon such terms and conditions therein contained. The total floor area of the structures/buildings, as per one of the appendices of the Contract, is 24,491.78 sq.m..
  - (iii) Jiangsu Lam Soon Flour Mills Company Limited, a wholly-owned subsidiary established by the Purchaser, is now occupying the property for production and business purposes. The subsidiary company has been duly approved by the laws of PRC. However, it is newly formed and its capital investment has not been due yet.
  - (iv) The term of the land use rights and the floor areas of the structures/buildings will have to be confirmed by issuance of the Realty Title Certificate(s) to Jiangsu Lam Soon Flour Mills Company Limited.
  - (v) As the PRC lawyer has not been provided with the asset valuation report and the confirmation issued by the State-owned Assets Management Authority to such asset valuation report, the PRC lawyer cannot confirm that the Contract is valid. As the relevant procedure for transfer of all assets (including the land and buildings) has not been completed, the ownership of all assets are still vested in the Owner.
  - (vi) As Jiangsu Lam Soon Flour Mills Company Limited has not obtained the land use rights of the land and building ownership rights of the buildings/structures, it is not entitled to lease, mortgage or transfer the property.
3. As confirmed by the Group, the Purchaser is a wholly owned subsidiary of the Group.
4. As no ownership right has been obtained in respect of the property, we have ignored its value in our valuation.

*The following is the text of the letter received from Castores Magi Surveyors Limited, prepared for the purpose of inclusion in this document, in connection with its valuation as at 31 March 2002 of the plant of the Group.*

嘉漫測量師有限公司

**CASTORES MAGI** SURVEYORS LIMITED  
REGISTERED PROFESSIONAL SURVEYORS  
REAL ESTATE, MINERALS, MACHINERY & EQUIPMENT AND BUSINESS VALUERS

CASTORES



MAGI

Suites 402–3  
Unicorn Trade Centre  
No. 131 Des Voeux Road Central  
Hong Kong

6 May 2002

The Directors

Lam Soon Food Industries Limited

Lam Soon Building

21 Dai Fu Street

Tai Po Industrial Estate

Tai Po, New Territories

Hong Kong

Dear Sirs,

In accordance with your instructions to value the plant (the “Assets”) exhibited to us as being held by Lam Soon Food Industries Limited (the “Company”) and its subsidiaries (together the “Group”), we confirm that we have conducted physical inspections, made relevant enquiries, research and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the fair market value of the Assets as at 31 March 2002 (date of valuation).

This summary report forms part of a detailed valuation report dated 6 May 2002 which comprises:

- i. a narrative section which identifies the plant appraised, states the nature and extent of our investigation, the premise of the value adopted, the valuation process adopted, and presents the conclusion of value;
- ii. general limiting conditions; and
- iii. a schedule of the Assets showing each item or group of item.

#### ASSETS VALUED

The Assets included in this valuation mainly comprises various plant utilised by the Group in the production of edible oil, flour and detergent. These are:

##### **Shekou Oil Plant**

The subject assets appraised comprise various production plant of edible oil which are located in Lam Soon Building, Nankang Road, Shekou Industrial Area, Nanshan District, Shenzhen, Guangdong Province, the People’s Republic of China.

**Shekou Flour Plant**

The subject assets appraised comprise various production plant of flour which are located in Lam Soon Building, Nankang Road, Shekou Industrial Area, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China.

**Panyu Detergent Plant**

The subject assets appraised comprise various production plant of detergent which are located in Northern Bank of Luoqi, Dashi Town, Panyu, Guangzhou, Guangdong Province, the People's Republic of China.

We were informed by the Group that the Assets were owned by the following companies:

*For Shekou Oil Plant and Shekou Flour Plant*

- i. Shenzhen Lam Soon Edible Oils Company Limited
- ii. Shekou Lam Soon Flour Mills Company Limited
- iii. Shekou Lam Soon Silo Company Limited

*For Panyu Detergent Plant*

- i. Guangzhou Lam Soon Homecare Products Limited
- ii. Guangzhou Lam Soon Food Products Limited

We have excluded from this investigation land, buildings and structures, office furnitures and equipments, construction-in-progress, spare parts, stocks and inventory, company records and any current and intangible assets.

At the time of our inspection, the Assets were observed to be in generally good working condition and it is our opinion that they are capable of performing efficiently the purpose for which they were designed and built. There was evidence of good maintenance programme.

**VALUATION METHODOLOGY**

We have appraised the Assets on the basis of fair market value by adopting cost approach and market approach.

The Cost Approach is that approach which measures value by determining the current cost of reproduction or replacement new of asset and deducting for the various elements of depreciation, physical deterioration and functional and economic obsolescence.

Current cost of reproduction new is the current cost of producing or constructing in new condition an asset in like kind.

Current cost or replacement new is the current cost of producing or constructing in new condition an asset of equivalent utility.

Depreciation is a loss from the upper limit of value, which is the current cost of reproduction or replacement new, installed.

Physical deterioration is the loss in value resulting from wear and tear of an asset in operation and exposure to various elements. This includes items such as age, past service experience, maintenance practice, exposure to the natural elements, the process area environment, internal defects from vibration and operating stress, and the effects of prolonged shutdowns, accidents and disasters.

Functional obsolescence is the loss in value within the asset as a result of the development of new technology. This includes items such as changes in design, materials or process resulting in over capacity, inadequacy, excess construction, lack of utility or excess variable operating costs.

Economic obsolescence is the loss in value resulting from factors external to the asset. This include items such as reduced demand for the product, increased competition, changes in raw material supplies, increasing costs of raw materials, labour or utilities without a corresponding price increase of the product, inflation, high interest rates, legislation and environmental considerations.

Without a known used market as well as lack of any information regarding sale of used asset, the most reliable approach in arriving at an opinion of value is by using the cost approach.

The Market Approach is that approach to value where recent sales and offering prices of similar asset are analyzed to arrive at an indication of the most probable selling price of the asset being appraised.

Asset for which a known used market existed will be appraised by the market approach.

## **VALUATION PROCESS**

For assets valued by the cost approach, we have initially developed the current cost of reproduction or replacement new and subtract all depreciation. The factors that decrease value are expressed in percentages and converted to dollars or expressed directly in dollars.

The normal cost elements included in either the current cost of reproduction or replacement new estimates are all direct costs, i.e. purchase price new, freight and installation (including foundation, pilings, utility connection, trial runs and debugging), and indirect costs, i.e. design, engineering, supervision, licensing, permit and taxes.

Age is a contributing factor to depreciation of an asset as its value will be at highest when it is new, unused, installed and ready for use. For determining the remaining useful life of the asset, we have referred to the information of life expectancy of a new asset from government, professional and industrial publications.

The trending of historical costs is one popular method of establishing the current cost of replacement or reproduction new. We have adopted the trend index from government, professional and industrial publications, and other published economic statistics.

For assets valued by the market approach, we have analysed recent sale price of used assets which are the same or similar to the appraised assets. Addition and deduction are than made on the indicated market prices for differences such as location, age and capacity between the appraised assets and used market comparatives.

For this valuation, we have approached the manufacturers and dealers to acquire current price lists, catalogs, equipment specifications, economic trends, present market conditions, anticipated future developments and also referred to our own pricing and reference material library, new and used equipment publications and internet web sites.

Where the assets are foreign origin and imported from overseas, expenditures normally incurred such as packing and crating charges, inland and ocean freight, insurance, duties and taxes, bank charges and handling fees are considered.

#### **DECLARATION AND CERTIFICATION**

During our valuation, we have relied considerably on the relevant information and document provided by the Group.

We have not investigated the title to or any liabilities affecting the assets appraised. No consideration was made for any outstanding amounts owed under financing agreements, if any.

We assumed that all necessary procedures, licences and permits for running the business at the present locations were obtained in accordance with any legislations and guidance.

Our valuation was based on the asset list provided by the Group.

We have no present or prospective interests of any nature in the assets appraised or the value reported.

#### **OPINION OF VALUE**

Premised on the foregoing, we are of the opinion that as at 31 March 2002, the fair market value of the Assets was fairly represented in the amount of HK\$233,709,000 (HONG KONG DOLLARS TWO HUNDRED THIRTY THREE MILLION SEVEN HUNDRED AND NINE THOUSAND ONLY) of which HK\$230,820,487 was attributable to the Group.

Yours faithfully,  
For and on behalf of  
**Castores Magi Surveyors Limited**  
**Ernest Cheung Wah Fu**  
*B.Sc. MRICS AHKIS RPS MCI Arb*  
*Director*

*Note:* Mr. Ernest Cheung Wah Fu is a Member of the Royal Institution of Chartered Surveyors, an Associate of the Hong Kong Institute of Surveyors, a Registered Professional Surveyor and a Member of the Chartered Institute of Arbitrators.

## 1. RESPONSIBILITY STATEMENT

The information in this document relating to the Group has been supplied by the Directors. The issue of this document has been approved by the Directors who jointly and severally accept full responsibility for the accuracy of the information contained in this document relating to the Group and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement in this document misleading.

The information in this document relating to LSHK has been supplied by the directors of LSHK. The issue of this document has been approved by the directors of LSHK who jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than those relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document the omission of which would make any statement in this document misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests in the Company, LSHK and an associated corporation

- (i) As at the Latest Practicable Date, the directors of the Company and LSHK had the following interests in the share capital of the Company, LSHK and an associated corporation which had been notified to the Company and/or LSHK and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under Section 31 of, or Part I of the Schedule to, the SDI Ordinance), or which will be required, pursuant to Section 29 of the SDI Ordinance to be entered into the register referred to therein, or which will be required to be notified to the Company and/or LSHK and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

	Number of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
<u>The Company</u>				
WHANG Tar Choung	—	90,000	—	—
TSAO Chen, James	142,000	—	—	—
WHANG Sun Tze	3,670,090	—	21,500	—
			(Note a)	
LO Kwong Chi, Clement	40,000	—	—	—
HO King Cheung	19	—	—	—
<u>LSHK</u>				
WHANG Tar Choung	7,337,637	6,222,534	—	131,461,065
				(Note b & c)
NG Ping Kin, Peter	712,000	—	—	—
TSAO Chen, James	50,000	—	—	—
WHANG Sun Tze	28,623,743	—	19,326	116,396,624
			(Note d)	(Notes b & e)
LO Kwong Chi, Clement	323,754	—	—	—
TAN Lim Heng	274,000	—	—	—
ENG, James Jr.	149,000	—	—	—
HO King Cheung	30,690	—	—	—
YONG Weng Chye	809,000	—	—	—

	Number of shares held			
	Personal interests	Family interests	Corporate interests	Other interests
<u>Associated corporation</u>				
<b>M.C. Packaging Offshore Limited</b>				
NG Ping Kin, Peter	3,000	—	—	—

*Notes:*

- (a) The interest disclosed represents the corporate interests of Dr WHANG Sun Tze in 21,500 Shares held by T.C. Whang & Company (Private) Limited.
- (b) The interest disclosed herein included the interest in LSHK which the respective parties held by virtue of the provisions of Sections 8, 9 and 10 of the Securities (Disclosure of Interests) Ordinance and the shareholders' agreement and the supplemental agreement both dated 27 May 1997 made, inter alia, between Mr WHANG Tar Choung, Mdm TEO Joo Yee, Dr WHANG Sun Tze (alias WHANG Siong Tiat), Raven Investment Company Limited, T.C. Whang & Company (Private) Limited and Guoinvest.
- (c) The interest disclosed represents the interest of Mr WHANG Tar Choung in 131,461,065 LSHK Shares referred to in Note (b) above.
- (d) The interest disclosed represents the corporate interests of Dr WHANG Sun Tze in 19,326 LSHK Shares held by T.C. Whang & Company (Private) Limited and SGR Investment Company Limited.
- (e) The interest disclosed represents the interest of Dr WHANG Sun Tze in 116,396,624 LSHK Shares referred to in Note (b) above.

	Share options		Number of share options held
	Exercise period	Exercise price per share HK\$	
<u>Associated corporation</u>			
<b>Flourtech International Holdings Limited</b>			
HO King Cheung	1 February 1993 to 31 January 2003	1.00	180,000

Save as disclosed herein, as at the Latest Practicable Date, none of the directors of the Company and LSHK had or was deemed to have any interests in the share capital of the Company or LSHK or any of its associated corporations (within the meaning of the SDI Ordinance) which were required to be notified to the Company and/or LSHK and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are deemed or taken to have under section 31 of, or Part 1, of the Schedule to, the SDI Ordinance), or which are required, pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and/or LSHK and the Stock Exchange.



- (ii) As at the Latest Practicable Date, none of the Company or its subsidiaries or any of their pension funds had any beneficial interest in any Shares or LSHK Shares.
- (iii) None of the Directors has a material personal interest in any contract or arrangement subsisting as at the Latest Practicable Date which is significant to the business of the Group taken as a whole nor any of them has a material personal interest in any material contracts of LSHK as at the Latest Practicable Date.
- (iv) None of the Directors has or proposes to have a service agreement with any member of the Group, other than contracts which are expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation or which have not been entered into or amended materially within six months before the Announcement Date.
- (v) Save as the confirmations given by LSHK and the Excluded Persons to vote in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme, there is no agreement, arrangement or understanding (including any compensation arrangement) between LSHK or any person acting in concert with it and any of the Directors, recent Directors, substantial Shareholders or recent Substantial Shareholders having any connection with or dependence upon the Proposal nor there is any irrevocable undertaking by any other persons in respect of voting at the Court Meeting or the Special General Meeting.
- (vi) There is no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Proposal or otherwise connected with the offer.
- (vii) None of the advisers or parties as referred to in paragraph 7 of this appendix, together with their respective ultimate holding companies, subsidiaries or fellow subsidiaries, owned or controlled any shares, convertible securities, warrants, options or derivatives of the Company as at the Latest Practicable Date.
- (viii) Save as disclosed in this document, none of the persons acting in concert with LSHK has any shareholding interest in the Company.
- (ix) As at the Latest Practicable Date, there is no shareholding in the Company which is managed on a discretionary basis by fund managers connected with LSHK or the Company.

**(b) Substantial Shareholders**

As at the Latest Practicable Date, according to the register kept by the Company under section 16(1) of the SDI Ordinance and so far as is known to the Directors, the following persons were the substantial Shareholders and had the following interests:

<b>Name</b>	<b>Note</b>	<b>Number of Shares held</b>	<b>Number of Convertible Preference Shares held</b>
LSHK		83,228,315	500,000,000
Guoinvest	A	83,228,315	500,000,000
Providence Investments N.V. ("Providence")	B	83,228,315	500,000,000
Guoline Capital Assets Limited ("Guoline")	C	83,228,315	500,000,000
Hong Leong Company (Malaysia) Berhad ("Hong Leong")	D	83,228,315	500,000,000
QUEK Leng Chan ("Mr QUEK")	E	83,228,315	500,000,000
HL Holdings Sdn Bhd ("HLH")	E	83,228,315	500,000,000
Hong Leong Investment Holdings Pte Limited ("HL Investment")	E	83,228,315	500,000,000
Kwek Holdings Pte Limited ("Kwek Holdings")	E	83,228,315	500,000,000

*Notes:*

- (A) *The interests disclosed represent the aggregate corporate interests which Guoinvest held in the Company through LSHK.*
- (B) *The interests disclosed represent the aggregate corporate interests which Providence held in the Company through Guoinvest and LSHK.*
- (C) *The interests disclosed represent the aggregate corporate interests which Guoline held in the Company through Providence, Guoinvest and LSHK.*
- (D) *The interests disclosed represent the aggregate corporate interests which Hong Leong held in the Company through Guoline, Providence, Guoinvest and LSHK.*
- (E) *The interests disclosed represent the aggregate corporate interests which Mr QUEK, HLH, HL Investment and Kwek Holdings held in the Company through Hong Leong, Guoline, Providence, Guoinvest and LSHK.*

## (c) Dealings in shares

- (i) The following table sets out dealings in the Shares by LSHK during the period between 5 October 2001 (being the date six months prior to the Announcement Date) and the Latest Practicable Date.

Date	No. of Shares purchased	Price per Share HK\$
17 October 2001	20,000	1.70
	15,000	1.62
18 October 2001	20,000	1.61
29 October 2001	20,000	1.68
31 October 2001	20,000	1.72
	20,000	1.68
	50,000	1.62
	30,000	1.58
7 November 2001	17,000	1.66
8 November 2001	20,000	1.66
9 November 2001	20,000	1.66
12 November 2001	20,000	1.68
13 November 2001	20,000	1.68
14 November 2001	20,000	1.67
15 November 2001	10,000	1.66
21 November 2001	70,000	1.70
23 November 2001	25,000	1.80
	2,000	1.76
26 November 2001	29,000	1.80
27 November 2001	60,000	1.80
6 December 2001	10,000	1.80
Total	<u>518,000</u>	

- (ii) The following table sets out dealings in LSHK Shares by directors of LSHK during the period between 5 October 2001 (being six months prior to the Announcement Date) and the Latest Practicable Date.

Date	Name	No. of LSHK		Price per LSHK Share
		Shares purchased	Shares sold	
25 January 2002	TAN Lim Heng	100,000		1.88
28 January 2002		50,000		1.81
29 January 2002		14,000		1.75
21 February 2002		10,000		1.91
21 February 2002		100,000		1.93
8 February 2002	YONG Weng Chye	1,109,000		1.87
5 March 2002			300,000	1.92
20 March 2002	NG Ping Kin, Peter		613,000	1.90

- (iii) Save as disclosed in paragraph 2 (c)(i) of this appendix, none of the parties or persons as referred to in paragraphs 2 (a) and (b) of this appendix has dealt for value in any Shares or any LSHK Shares or options in respect of the Shares or LSHK Shares during the period beginning six months prior to the Announcement Date and ending on the Latest Practicable Date.
- (iv) There is no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code between the Company, any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of associate under the Takeovers Code, LSHK or LSHK's respective concert parties, and any other persons.

### 3. MARKET PRICES

- (a) The Shares are traded on the Stock Exchange. The table below shows the closing prices of the Shares on the Stock Exchange on (i) the last trading day of each of the six calendar months immediately preceding 4 April 2002, the Announcement Date; (ii) 28 March 2002, being the last trading day prior to the suspension of trading in the Shares from 9:30 a.m. on 2 April 2002, pending the issue of the Announcement; and (iii) the Latest Practicable Date:

<b>Date</b>	<b>Closing price</b> <i>HK\$</i>
31 October 2001	1.70
30 November 2001	1.92
31 December 2001	2.00
31 January 2002	2.175
28 February 2002	2.225
28 March 2002	2.20
30 April 2002	2.825
Latest Practicable Date	2.825

- (b) The highest and lowest closing prices for the Shares recorded on the Stock Exchange during the period between 5 October 2001 (being the date six months prior to the Announcement Date) and the Latest Practicable Date were HK\$2.825 on 22, 23, 25 and 30 April 2002 and the Latest Practicable Date and HK\$1.66 on 7, 14, 15, and 16 November 2001 respectively.

- (c) The table below sets out the highest and lowest closing prices of the Shares on the Stock Exchange for each month during the twelve-month period immediately preceding 4 April 2002, the Announcement Date:

Month	Highest closing price	Lowest closing price
	<i>HK\$</i>	<i>HK\$</i>
April 2001	1.49	1.45
May 2001	1.75	1.45
June 2001	1.84	1.70
July 2001	1.84	1.74
August 2001	1.85	1.74
September 2001	1.70	1.60
October 2001	1.80	1.67
November 2001	1.92	1.66
December 2001	2.15	1.94
January 2002	2.30	1.95
February 2002	2.35	2.15
March 2002	2.25	2.125

#### 4. MATERIAL CONTRACTS

No material contracts (not being contracts being entered into in the ordinary course of business carried on or intended to be carried on by the Group) have been entered into by the Group within the two years prior to 4 April 2002 and between 4 April 2002 and the Latest Practicable Date.

#### 5. LITIGATION

As at the Latest Practicable Date, no member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claims of material importance known to the Directors to be pending or threatened by or against any member of the Group.

#### 6. QUALIFICATION OF EXPERTS

The following are the qualifications of the experts who have given opinions or advices which are contained in this document:

Name	Qualification
Access Capital	Investment adviser and dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
CB Richard Ellis Limited	Property valuers
Castores Magi Surveyors Limited	Plant valuers
Guangdong Jindi Law Office	PRC lawyers
Lee and Li, Attorneys-at-law	Taiwan lawyers
Rothschild	Investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)

## 7. CONSENTS

Rothschild, Access Capital, CB Richard Ellis Limited, Castores Magi Surveyors Limited, Guangdong Jindi Law Office and Lee and Li, Attorneys-at-law have given and have not withdrawn their respective written consents to the issue of this document with the inclusion therein of copies of their respective reports and/or references to their names, in the form and context in which they respectively appear.

## 8. MISCELLANEOUS

- (a) The registered office of LSHK is at 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong. The registered office of Guoinvest is at P.O. Box 438, Road Town, Tortola, British Virgin Islands.
- (b) The directors of LSHK are Messrs. WHANG Tar Choung, NG Ping Kin, Peter, TSAO Chen, James, WHANG Sun Tze, LO Kwong Chi, Clement, KWEK Leng Hai, TAN Lim Heng, ENG, Jr. James, TSANG Cho Tai, HO King Cheung and YONG Weng Chye (alternate director to WHANG Tar Choung).
- (c) The ultimate controlling shareholder of LSHK is Guoinvest. The ultimate beneficial owner of Guoinvest is Hong Leong Company (Malaysia) Berhad which is owned by the family interests of the Quek Family including Messrs. QUEK Leng Chan and KWEK Leng Hai. The directors of Guoinvest are Messrs. QUEK Leng Chan, KWEK Leng Hai and TANG Hong Cheong.
- (d) The registered office of Rothschild is at 16th Floor, Alexandra House, 16–20 Chater Road, Central, Hong Kong. The registered office of Access Capital is at 3rd Floor, No. 8 Queen's Road Central, Hong Kong.
- (e) The joint secretaries of the Company are Ms CHENG Man Ying and Mr YEUNG Yuk Lun.
- (f) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the Company in Hong Kong is at 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong.
- (g) No benefit (other than statutory compensation) will be given to any Directors as compensation for loss of office in any member of the Group or otherwise in connection with the Proposal.
- (h) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between LSHK and any other person for the transfer of the beneficial interests in the Scheme Shares under the Proposal.
- (i) In the event of inconsistency, the English text of this document shall prevail over the Chinese text.

## 9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Richards Butler, 20th Floor, Alexandra House, 16–20 Chater Road, Central, Hong Kong during normal business hours on any weekday (public holidays excepted) until the Effective Date:

- (a) The memorandum of association and bye-laws of the Company and the memorandum and articles of association of LSHK.
- (b) The audited consolidated financial statements for the Group for each of the two years ended 31 December 2001.
- (c) The letter from Access Capital, the text of which is set out on pages 11 to 23 of this document.
- (d) The full version of the letters and valuation certificates from CB Richard Ellis Limited and Castores Magi Surveyors Limited, the text of which is set out in Appendix II and III respectively.
- (e) The letter of consent as referred to in this appendix.
- (f) The terms of the Convertible Preference Shares.
- (g) The Share Option Scheme.
- (h) The confirmations given by LSHK and the Excluded Persons to vote in favour of the special resolution to be proposed at the Special General Meeting to approve and give effect to the Scheme if the Scheme is approved at the Court Meeting.

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# SCHEME OF ARRANGEMENT

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IN THE SUPREME COURT OF BERMUDA

CIVIL JURISDICTION

2002: NO. 171

IN THE MATTER OF  
LAM SOON FOOD INDUSTRIES LIMITED

and

IN THE MATTER OF SECTION 99 OF  
THE COMPANIES ACT 1981

SCHEME OF ARRANGEMENT

between

LAM SOON FOOD INDUSTRIES LIMITED

and

THE HOLDERS OF THE SCHEME SHARES  
(as hereinafter defined)

PRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall bear the following meanings:

“LSHK”	means Lam Soon (Hong Kong) Limited, a company incorporated in Hong Kong;
“Convertible Preference Shares”	means convertible preference shares of HK\$0.05 each in the capital of the Company
“Company”	means Lam Soon Food Industries Limited, a company incorporated in Bermuda;
“Court”	means the Supreme Court of Bermuda;
“Effective Date”	means the date on which this Scheme becomes effective in accordance with clause 7 of this Scheme;
“Latest Practicable Date”	means 2 May 2002, being the latest practicable date prior to printing of the document sent to, <i>inter alia</i> , holders of Shares dated 6 May 2002 in which this Scheme is contained;
“Record Date”	means 19 June 2002 or such other date as shall have been announced to the Shareholders;



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## SCHEME OF ARRANGEMENT

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“Register”	means the register of members of the Company;
“Scheme”	means this scheme of arrangement in its present form or with or subject to any modification(s) or addition(s) or condition(s) which the Court may approve or impose;
“Scheme Shares”	means the Shares in issue as at the Record Date which are not beneficially owned by LSHK;
“Shareholder”	means a registered holder of Shares;
“Shares”	means ordinary shares of HK\$1.00 each in the capital of the Company; and
“HK\$”	means Hong Kong dollars.

- (B) The Company was incorporated on 4 September 1990 in Bermuda under the Companies Act 1981 of Bermuda and currently has an authorised share capital of HK\$210,000,000 divided into 500,000,000 Convertible Preference Shares and 185,000,000 Shares as of the Latest Practicable Date of which 127,904,201 Shares and 500,000,000 Convertible Preference Shares have been issued and are fully paid or credited as fully paid.
- (C) On the Latest Practicable Date, LSHK beneficially owned an aggregate of 83,228,315 Shares fully paid. LSHK has undertaken to the Court that in relation to such Shares in which it is beneficially interested, it will remain so beneficially interested in such Shares until the date on which the Scheme becomes effective, is withdrawn or lapsed.
- (D) On the Effective Date, all the Scheme Shares in issue on the Record Date will be cancelled and extinguished.
- (E) In consideration of and exchange for the cancellation and extinguishment of each of the Scheme Shares, all holders of Scheme Shares will be entitled to receive HK\$2.90 in cash for every Scheme Share held.
- (F) LSHK has agreed to appear by Counsel at the hearing of the petition to sanction this Scheme and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by them for the purpose of giving effect to this Scheme.
- (G) The primary purpose of this Scheme are that the holders of Scheme Shares should receive cash, in consideration of the cancellation and extinguishment of the Scheme Shares, on the basis of HK\$2.90 in cash for every Scheme Share held by them and that the Company should become wholly-owned by LSHK.

### The Scheme

#### Part I — Cancellation and extinguishment of the Scheme Shares

1. (a) On the Effective Date, the share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares.

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## SCHEME OF ARRANGEMENT

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- (b) The Company shall apply the amount of the credit arising in its books of account as a result of the reduction of its share capital referred to in paragraph (a) above to a reserve account in the books of account of the Company.

### Part II — Consideration for cancellation of the Scheme Shares

2. In consideration of the cancellation of the Scheme Shares pursuant to paragraph 1(a) of this Scheme, LSHK will pay to each Scheme Shareholder, as appearing in the Register at 4:00 p.m. (Hong Kong time) on the Record Date, HK\$2.90 in cash for every Scheme Share held.

### Part III — General

3. As from the Effective Date, all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title and every holder thereof shall be bound on the request of the Company to deliver up to the Company the certificates for his or her existing holding.
4. (a) Not later than ten days after the Effective Date, LSHK shall send or cause to be sent to the Scheme Shareholders (as appearing in the Register at 4:00 p.m. (Hong Kong time) on the Record Date) cheques in respect of the sums payable to such Scheme Shareholders.
- (b) Unless indicated otherwise in writing to the branch share registrars of the Company in Hong Kong, all such cheques and certificates shall be sent through the post (by airmail where appropriate) in pre-paid envelopes addressed to such Scheme Shareholders as follows:
- (i) In the case of each sole Scheme Shareholder, to the registered address of such Scheme Shareholders as appearing in the Register as at 4:00 p.m. (Hong Kong time) on the Record Date; or
- (ii) In the case of joint Scheme Shareholders, the registered address as appearing in the Register as at 4:00 p.m. (Hong Kong time) on the Record Date of the joint Scheme Shareholder whose name then stands first in the Register in respect of the relevant joint holding.
- (c) All cheques shall be made payable to the order of the person or persons to whom, in accordance with the provisions of Clause 4(b) of this Scheme, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to LSHK for the moneys expressed to be represented thereby.
- (d) All cheques shall be posted at the risk of the addressees and other persons entitled thereto and neither LSHK nor the Company shall be liable for any loss or delay in transmission.
- (e) On or after the day being six calendar months after the posting of the cheques pursuant to paragraph 4(b) of this Scheme, LSHK shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date make payments thereout of the sums payable pursuant to paragraph 2 of this Scheme to persons who satisfy the Company that they are respectively entitled thereto, provided that the cheques referred to in paragraph 4(b) of this Scheme of which they are payees have not been cashed. Any payments made by the Company hereunder shall include any interest accrued on the sums to which the respective

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## SCHEME OF ARRANGEMENT

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persons are entitled pursuant to paragraph 2 of this Scheme, calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of interest tax or any withholding or other tax or any other deduction required by law. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled, and a certificate of the Company to the effect that any particular person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.

- (f) On the expiry of six years from the Effective Date, LSHK shall be released from any further obligation to make any payments under this Scheme and the Company shall thereafter transfer to LSHK the balance (if any) of the sums standing to the credit of the deposit account referred to in paragraph 4(e) of this Scheme including accrued interest subject, if applicable, to the deduction of interest tax or any withholding or other tax or any other deduction required by law and subject to the deduction of any expenses.
  - (g) The preceding sub-paragraphs of this paragraph 4 shall take effect subject to any prohibition or condition imposed by law.
5. Each instrument of transfer and certificate validly subsisting at the Record Date in respect of a transfer or holding of any number of Scheme Shares shall, as from the Effective Date, cease to be valid for any purpose as an instrument of transfer or a certificate for Shares and every Scheme Shareholder thereof shall be bound, on the request of the Company, to deliver up to the Company the certificate(s) for its, his or her existing holding.
  6. All mandates or other instructions to the Company in force at the opening of business in Hong Kong on the Effective Date in relation to the Scheme Shares (including elections for the payment of dividends by way of scrip) shall cease to be valid as effective mandates or instructions.
  7. This Scheme shall become effective as soon as a copy of the Order of the Court sanctioning this Scheme under section 99 of the Companies Act shall have been duly registered by the Registrar of Companies in Bermuda.
  8. Unless this Scheme shall have become effective on or before 30 June 2002, or such later date, if any, as the Court on the application of the Company or LSHK may allow, this Scheme shall lapse.
  9. The Company and LSHK may jointly consent for and on behalf of all concerned to any modification(s) of or addition(s) to this Scheme or to any condition(s) which the Court may see fit to approve or impose.
  10. The expenses and costs incurred by the Company in connection with the Scheme and the costs of carrying the same into effect shall be borne by the Company and LSHK jointly.

Dated 6 May 2002

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# NOTICE OF THE COURT MEETING

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IN THE SUPREME COURT OF BERMUDA

CIVIL JURISDICTION

2002: No. 171

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IN THE MATTER OF

LAM SOON FOOD INDUSTRIES LIMITED

and

IN THE MATTER OF

The Companies Act 1981, Section 99

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Notice of Meeting

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**NOTICE IS HEREBY GIVEN** that, by an Order dated 2 May 2002 made in the above matters, the Court has directed to convene a Meeting of the holders of the Scheme Shares (as defined in the Scheme of Arrangement hereinafter mentioned), for the purpose of considering and, if thought fit, approving (with or without modification(s)) a Scheme of Arrangement proposed to be made between the above-named Company (the “Company”) and the holders of Scheme Shares and that such Meeting will be held at 3/F., Lam Soon Building, 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Wednesday, 29 May 2002 at 10:00 a.m. at which place and time all the holders of the Scheme Shares are requested to attend.

A copy of the said Scheme of Arrangement and a copy of the Explanatory Statement required to be furnished pursuant to section 100 of the above mentioned Act are incorporated in the printed document of which this Notice forms part.

The said holders of the Scheme Shares may vote in person at the said Meeting or they may appoint another person(s) whether member(s) of the Company or not, as their proxies to attend and vote in their stead. A pink form of proxy for use at the said Meeting is enclosed herewith.

In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s), and for this purpose seniority will be determined by the order in which the names stand in the Register of Members of the Company in respect of the relevant joint shareholding.

It is requested that forms appointing proxies be lodged at the office of the branch share registrars of the Company in Hong Kong, at Central Registration Hong Kong Limited, Room 1901–1905, 19/F., Hopewell Centre, No. 183, Queen’s Road East, Hong Kong not later than 48 hours before the time appointed for the said Meeting.

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## NOTICE OF THE COURT MEETING

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By the said Order, the Court has appointed Mr NG Ping Kin, Peter, a Director, or failing him, Mr TSAO Chen, James, a Director, to act as Chairman of the said Meeting and has directed the Chairman to report the result thereof to the Court.

The said Scheme of Arrangement will be subject to the subsequent approval of the Court and to the satisfaction of the Proposal (as defined in the Scheme of Arrangement) set out in the Explanatory Statement.

Dated this 6th day of May, 2002

**CONYERS DILL & PEARMAN**

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

Attorneys for the Company



## LAM SOON FOOD INDUSTRIES LIMITED

*(Incorporated in Bermuda with limited liability)*

**NOTICE IS HEREBY GIVEN** that a Special General Meeting of Lam Soon Food Industries Limited (the "Company") will be held at 3/F., Lam Soon Building, 21 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on Wednesday, 29 May 2002 at 10:30 a.m. (or as soon thereafter as the meeting of the holders or the Scheme Shares (as defined in the Scheme of Arrangement hereinafter mentioned) convened by direction of the Supreme Court of Bermuda for the same day and place, shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing the following resolution as a Special Resolution:

### SPECIAL RESOLUTION

**"THAT:**

- (a) the Scheme of Arrangement dated 6 May 2002 (the "Scheme") between the Company and the holders of the Scheme Shares (as defined in the Scheme) in the form of a print marked "A" produced to the Meeting and for the purpose of identification signed by the Chairman hereof with any modification(s) or addition(s) or condition(s) approved or imposed by the Supreme Court of Bermuda, be and is hereby approved; and
- (b) for the purpose of giving effect to the Scheme on the Effective Date (as defined in the Scheme):
  - (i) the issued share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares; and
  - (ii) the Company shall apply the amount of the credit arising in its books of account as a result of the reduction of its share capital referred to in sub-paragraph (i) above to a reserve account in the books of account of the Company; and
- (c) the directors of the Company be and are hereby authorised to do all acts and things considered by them to be necessary or desirable in connection with the implementation(s) of the Scheme, including (without limitation) the giving of consent to any modification(s) of, or addition(s) to, the Scheme, which the Supreme Court of Bermuda may see fit to impose."

By Order of the Board  
**Lam Soon Food Industries Limited**  
**WHANG Tar Choung**  
*Chairman*

Dated 6 May 2002

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## NOTICE OF SPECIAL GENERAL MEETING

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*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business in Hong Kong:*

21 Dai Fu Street  
Tai Po Industrial Estate  
Tai Po  
New Territories  
Hong Kong

*Notes:*

- (i) Any member entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him.*
- (ii) A white form of proxy for use at the said meeting is enclosed herewith.*
- (iii) To be valid, the instrument appointing a proxy, together with the power of attorney or other authority (if any) under which it is signed, or a certified copy of such power or authority, must be lodged at the branch share registrars of the Company in Hong Kong, Central Registration Hong Kong Limited, Room 1901–1905, 19/F., Hopwell Centre, No. 183 Queen's Road East, Hong Kong, no less than 48 hours before the time appointed for holding the meeting and in default the instrument of proxy shall not be treated as valid.*
- (iv) The register of members will be closed from 4:00 p.m. on Friday, 24 May 2002 to 4:00 p.m. on Wednesday, 29 May 2002 (both dates inclusive) during which period no transfer of Shares will be registered. In order to be entitled to attend and vote at the meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrars, Central Registration Hong Kong Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, by no later than 4:00 p.m. on Friday, 24 May 2002.*