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

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

If you have sold or transferred all your shares in and/or warrants of Ocean Grand Holdings Limited (the "Company"), you should at once hand this circular and the accompanying form 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.

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

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**OCEAN GRAND HOLDINGS LIMITED**  
**(海域集團有限公司\*)**

*(incorporated in Bermuda with limited liability)*

**MAJOR TRANSACTION AND SHARE TRANSACTION  
AND  
GENERAL MANDATES FOR ISSUE  
AND REPURCHASE OF SHARES**

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A notice convening a Special General Meeting of the Company to be held at Room 2805, 28th Floor, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong at 10:00 a.m., on 5 April 2000 (Wednesday), is set out on pages 72 to 76 of this circular. Whether or not you are able to attend the Special General Meeting, you are requested to complete and return the enclosed form of proxy, in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the Special General Meeting. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the Special General Meeting should you so wish.

20 March 2000

\* For identification purposes only

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## RESPONSIBILITY

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

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## DEFINITIONS

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

“Acquisition”	acquisition of the Sale Shares by the Purchaser from the Vendor
“Agreements”	the agreement entered into between the Vendor and the Purchaser on 15 February 2000 in relation to the Acquisition and as supplemented by two supplemental agreements entered into between the Vendor and the Purchaser dated 15 February 2000 and 17 February 2000
“Beijing Hangfan”	北京航帆信息技術有限公司 (*Linefan Info Technology Company) a PRC private limited company
“Beijing Jingxun”	北京京訊公眾信息技術有限公司 (*Beijing Jingxun Public Info. Tech. Limited), a PRC internet services provider
“CNNIC Survey”	the second half yearly survey for the period ended 31 December 1999, conducted by CNNIC (representing the latest survey conducted by the CNNIC up to the Latest Practicable Date)
“CNNIC”	China Internet Network Information Center
“Company”	Ocean Grand Holdings Limited, an exempted company incorporated in Bermuda with limited liabilities, the securities of which are listed on the Stock Exchange
“Completion”	completion of the Acquisition
“Consideration”	the aggregate consideration payable by the Purchaser to the Vendor for the Acquisition of the Sale Shares
“Consideration Shares”	the issue and allotment of 325 million Shares at the agreed deemed price of HK\$0.351 each for the settlement of part of the Consideration, which Consideration Shares represent approximately 9.90% of the existing issued share capital of the Company as at the Latest Practicable Date and 9.01% of the issued share capital of the Company, assuming that the same is only enlarged by the issue of the Consideration Shares

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## DEFINITIONS

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“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“Latest Practicable Date”	17 March 2000 (Friday), being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
“Linefan”	北京藍帆科技有限公司 (*Beijing Linefan Technology Company) a PRC private limited company
“Linefan Group”	Linefan and the Linefan Subsidiaries
“Linefan Shares”	shares in Linefan
“Linefan Subsidiaries”	Beijing Hangfan and Wellpay
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Purchaser”	南海興業銅鋁型材有限公司 (*Nanhai Xingye Shaped Bronze & Aluminum Products Co., Ltd.), a sino-foreign equity joint venture established under the laws of the PRC and which is 93.75% owned by the Company
“Principal Shareholders”	Mr. Yip Kim Po and his associates Holylake Resources Limited and Grecian Resources Limited who together beneficially own approximately 40.96% of the issued share capital of the Company as at the Latest Practicable Date
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of PRC
“Sale Shares”	1.6 million shares of Linefan representing 40% of its equity interest immediately before Completion

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## DEFINITIONS

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“Sallmanns”	Sallmanns (Far East) Limited, a firm of chartered surveyors, property consultants, plant and machinery valuers, financial and tangible asset valuers, which is independent from the Group
“Sallmanns’ Independent Valuation Report”	the preliminary valuation report produced by Sallmanns to the Company dated 15 February 2000 in valuation of the business of “search263.net” (the search engine for 263.net, otherwise and better known as “Capital-Online”) as at 1 January 2000 for the purpose of producing a financial valuation model for market value indication purpose and on discounted cashflow basis, after due consideration of information provided by the Company (including the business plan and future profit forecast of the business of “search263.net”, market forecast of internet users in the PRC and e-commerce activities and current statistics in the PRC internet industry), in which Sallmanns indicated the value of the business of “search263.net” to be approximately USD150 million (equivalent to HK\$1,162.50 million)
“SGM”	the special general meeting of the Company which is scheduled to be held on or about 5 April 2000 (Wednesday)
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“USD”	United States Dollar, the lawful currency of the United States
“Vendor”	Mr. Hong Ying Bin, a PRC national and an independent third party not connected with the Company, directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associated as defined in the Listing Rules

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## DEFINITIONS

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“Warrant(s)”	warrant(s) with subscription rights being transferable in amounts and multiples of HK\$0.20 entitling holders thereof to subscribe in cash for new Shares at any time on or before 31 December 2000 (or such earlier date as prescribed by the instrument constituting such warrants) at the existing adjusted subscription price of HK\$0.07 per Share with effect from 26 November 1999, subject to further adjustment where applicable
“Warrantholder(s)”	holders of the Warrants
“Wellpay”	北京威派軟件技術有限公司 (*Beijing Wellpay Software Technology Limited) a PRC private limited company
“Xingye Industry”	南海市興業型材實業有限公司 (*Nanhai Xingye Shaped Products Industry Limited), holding 6.25% equity interest in Xingye Products and is owned respectively as to 75% and 25% by Mr. Yip Lai Po (who is a current executive director of the Company) and Mr. Yip Xin Po (who is the brother of Mr. Yip Lai Po)
“Xingye Products”	the Purchaser

*Note:* The percentage figures as set out in this circular are in approximation only.

\* *For identification purposes only*

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LETTER FROM THE BOARD OF DIRECTORS

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**OCEAN GRAND HOLDINGS LIMITED**

(海城集團有限公司\*)

*(incorporated in Bermuda with limited liability)*

*Executive Directors:*

YIP Kim Po, *Chairman*  
TANG Hin Lun, *Vice Chairman*  
YIP Lai Po  
KWAN Yan  
WONG Yat Fai  
YIP Wan Fung

*Non-executive Directors:*

CHOY Tak Ho\*\*  
CHAU Po Fan\*\*

*Registered office:*

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

*Principal place of business:*

Room 2805, 28th Floor  
Admiralty Centre, Tower 1  
18 Harcourt Road  
Central  
Hong Kong

20 March 2000

\*\* *Independent Non-executive Directors*

*To the Shareholders and  
for information only, the Warrantholders*

Dear Sir or Madam,

**MAJOR TRANSACTION AND SHARE TRANSACTION  
AND  
GENERAL MANDATES FOR ISSUE AND REPURCHASE OF SHARES**

**INTRODUCTION**

The Directors announced on 18 February 2000 that Xingye Products (as purchaser) and Hong Ying Bin (as vendor) entered into the Agreements. The purpose of this circular is to provide you further information in relation to the Acquisition.

\* *For identification purposes only*



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## LETTER FROM THE BOARD OF DIRECTORS

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### AGREEMENTS DATED 15 FEBRUARY 2000 AND 17 FEBRUARY 2000

#### Parties

Purchaser: Xingye Products, a sino-foreign equity joint venture established under the laws of the PRC and a 93.75% owned subsidiary of the Company, with balance of its 6.25% equity interest being held by **Xingye Industry**.

Vendor: Hong Ying Bin, a PRC national

The Vendor is an independent third party not connected with the Company, directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates as defined in the Listing Rules and is not interested in any shares of the Company as at the Latest Practicable Date.

#### ACQUISITION

By way of the Agreements, the Purchaser has conditionally agreed to acquire from the Vendor 1.6 million Linefan Shares (which will represent 40% of the existing equity interest in Linefan) at the total consideration of HK\$148 million.

The Vendor is beneficially interested in 1.6 million Linefan Shares (representing 40% of the equity interest in Linefan), with the balance 2.4 million Linefan Shares (representing 60% of the equity interest in Linefan) being held by independent third parties not connected with the Company, directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates as defined in the Listing Rules as at the Latest Practicable Date. As at the Latest Practicable Date, the Vendor is also beneficially interested in a share option which will enable the Vendor to subscribe for up to 3,360,000 new Linefan Shares (representing 45.65% of the enlarged equity capital of Linefan upon full exercise of the said share option) within the period commencing from 1 January 2000 and expiring on 31 December 2000. The exercise price of the said share option shall be USD1.5 (equivalent to HK\$11.63) per Linefan Share if the said share option is exercised from 1 January 2000 to 30 June 2000 and USD2.00 (equivalent to HK\$15.50) per Linefan Share if the said share option is exercised from 1 July 2000 to 31 December 2000. The said share option shall not form part of the Acquisition. Assuming the full exercise of the aforesaid share option by the Vendor, the Sale Shares will represent approximately 21.74% of the enlarged equity capital of Linefan.

As at the Latest Practicable Date, the Company has not concluded any intention in respect of the acquisition of the balance of the 60% equity interest in Linefan nor has it concluded any intention in respect of the acquisition the above said share option. In the event that the Company shall acquire any or all of the said Linefan Shares and/or the said option, the Company shall make further announcement in this regard.

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## LETTER FROM THE BOARD OF DIRECTORS

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The principal assets of Linefan are its respective 70% and 72.2% equity interest in Beijing Hangfan and Wellpay and its 84.44% beneficial interest in the business of “search263.net”. The business in respect of “Search263.net” is held entirely by Beijing Hangfan.

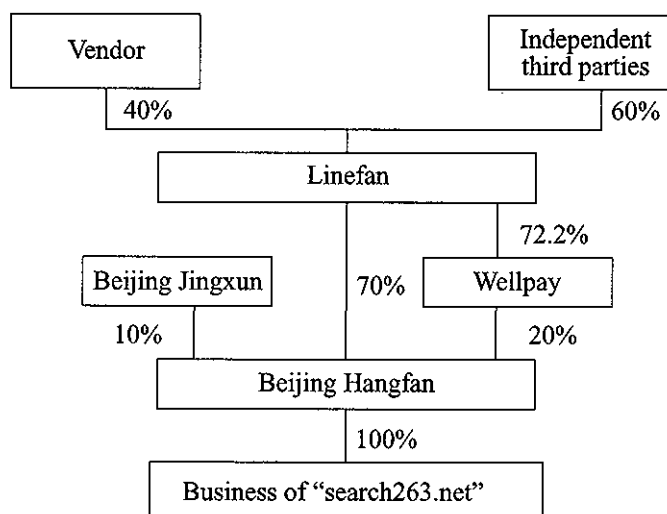
As Beijing Hangfan (held as to 70% by Linefan and as to 20% by Wellpay (which is in turn held as to 72.2% by Linefan)) is the owner of the entire business of “search263.net”, Linefan is beneficially interested as to 84.44% of the business of “search263.net”. For better reference, the balance 10% equity interest in Beijing Hangfan is held by Beijing Jingxun and the balance 27.8% equity interest in Wellpay is held by its management team. Both of Beijing Jingxun and Wellpay’s management team are independent third parties not connected with the Company, directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates as defined in the Listing Rules as at the Latest Practicable Date.

### FURTHER DETAILS OF THE LINEFAN GROUP

Further details of the business engagements of the Linefan Group and the business of “search263.net” are set out below:

#### *The Linefan Group*

#### Corporate Chart



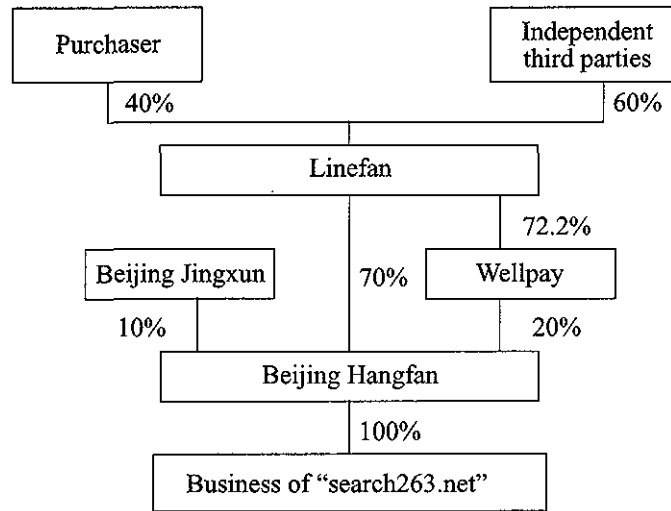
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## LETTER FROM THE BOARD OF DIRECTORS

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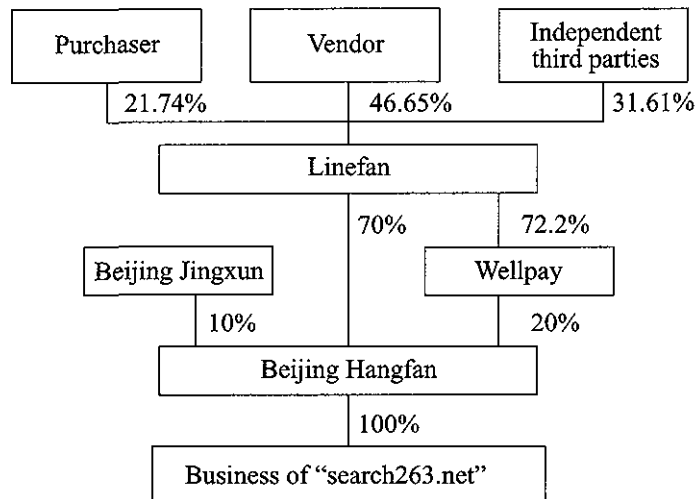
Upon Completion, the corporate chart of Linefan will be as follows:–

### Corporate Chart



Upon Completion and assuming the Vendor's full exercise of the aforesaid share option, the corporate chart of Linefan will be as follows:

### Corporate Chart



### *Linefan*

Linefan is an investment holding company which holds the Linefan Subsidiaries and is a private limited company duly established in the PRC which was duly obtained its business licence.

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## LETTER FROM THE BOARD OF DIRECTORS

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### *Beijing Hangfan*

Beijing Hangfan is a private limited company duly established in the PRC which has duly obtained its business licence and is:

- engaged as an internet contents provider in the PRC dealing with internet related consultancy, internet website design and production;
- also engaged in the provision of internet solutions services, information-technology products and services and the sale of telecommunication products; and
- #the owner of the business of “search263.net” and the operator of “search263.net” (the search engine for 263.net, otherwise and better known as “Capital-Online”).

### *Wellpay*

Wellpay is:

- engaged as an internet contents provider in the PRC dealing with internet related consultancy, internet website design and production;
- also engaged in the provision of internet solutions services and information-technology products and services;
- entitled to, inter alia, the conduct the business of buying/selling/trading of department store products, medical equipment, constructions/building/decoration related materials, arts and crafts, and electronics equipment and machinery; and
- #the owner of the business of “wellpay.com” and the operator of “wellpay.com”, a PRC internet contents provider (which upon Completion is expected to be expanded to include more contents focusing “life-style” related information).

# *the business of “search263.net” and the business of “wellpay.com” have much interactions in relation to the provision of contents in the internet and the continuance of such interactions are expected to be ensured notwithstanding Completion. While “search263.net” is a portal, “wellpay.com” has specific sites.*

### *The business of “search263.net”*

The business of “search263.net”:

- is principally the search engine for 263.net (otherwise and better known as “Capital-Online”, which is currently one of the top 5 most popular PRC web sites according to the CNNIC Survey); and

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## LETTER FROM THE BOARD OF DIRECTORS

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- is a significant internet contents provider in the PRC (with currently over 200,000 page viewers per day and with over 170,000 registered members).

Leveraging on the core strengths in contents provision and internet solutions services, the Linefan Group has established strong associations to engage in the operation of internet contents provision in the PRC. The contents provided by the Linefan Group can be accessed at “search263.net” and at “wellpay.com”.

### CONSIDERATION

The Consideration was determined on an arm’s length basis between the Purchaser and the Vendor with reference to Sallmanns’ Independent Valuation Report in which Sallmanns indicated the value of the business of “search263.net” as at 1 January 2000 (the search engine for 263.net, otherwise and better known as “Capital-Online”) to be approximately USD150 million (equivalent to HK\$1,162,500,000). For better reference, attention is drawn to the ultimate paragraph of Appendix III in which Sallmanns had opined that “... *as of 1 January, 2000, the aggregate market value of a 100 per cent. equity interest in the business of “search263.net” is reasonably stated by the amount of renminbi 1,231 MILLION (RENMINBI ONE THOUSAND TWO HUNDRED THIRTY-ONE MILLION ONLY) (equivalent to HK\$1,119,090,900).*” **The Directors wish to draw the attention of the Shareholders that the valuation as set out in Appendix III hereto indicated a shortfall of approximately HK\$43 million (ie. a shortfall of approximately 3%) in the valuation of the business of “search263.net” when compared with Sallmanns’ Independent Valuation Report. The aforesaid slight shortfall of approximately 3% has resulted from Sallmanns further review of the relevant documents in respect of the business of “search263.net” upon which Sallmanns are of view that their estimation of the amount of provision for the working capital of the business of “search263.net” should be modified upwards considering the substantial expenditure which is expected to be incurred initially in expanding the business of “search263.net”. The Company confirms that in light of such insignificant shortfall, the terms and conditions of the Agreement and in particular the consideration will not be adjusted. The Shareholders are also reminded to bear in mind when approving the Acquisition during the SGM that the valuation as set out in Appendix III was based upon a number of assumptions as stated therein.**

Notwithstanding that the Linefan Group does have other assets and business (aside from its 84.44% interest in the business of “search263.net”) and, in particular, that Wellpay owns the business of “wellpay.com”, these other assets (“Linefan Group’s other Assets”) have not been valued in any valuation report and in particular not valued by Sallmanns in Sallmanns’ Independent Valuation Report.

As the Consideration (which is in the aggregate amount of HK\$148 million):

- is referenced only on the Sallmanns’ Independent Valuation Report (which only valued the business of “search263.net” and in which Sallmann indicated the business of “search263.net” to be approximately USD150 million (equivalent to HK\$1,162.5 million));

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## LETTER FROM THE BOARD OF DIRECTORS

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- is referenced on the **exclusion** of any value of the Linefan Group's other assets (ie. in light that the Company is of the view that the most valuable asset of the Linefan Group is its business in "search263.net" and the value of its other assets is relatively insignificant in comparison to the value of its business in "search263.net"); and
- is, in essence, referenced on Linefan's value being USD126.66 million (equivalent to HK\$981.615 million) (in light that Linefan's is beneficially interested in 84.44% of the business of "search263.net"),

attention is drawn to the following:

- the Acquisition will, in essence, involve the acquisition of 40% equity interest in Linefan (which according to the above reference basis, is equivalent to the value of approximately USD50.66 million (equivalent to HK\$392.615 million)) at HK\$148 million (namely, approximately USD19.2 million) **thereby representing a discount of 62.1%**.
- the accountants' report of the Linefan Group as at 31 January 2000, an extract of which is set out in appendix IV of this curcular, indicates that the net assets value of the Linefan Group is approximately RMB3.3 million (equivalent to HK\$3.0 million).

### PAYMENT TERMS

The Consideration will be satisfied by in the following manner:

- (a) the issue and allotment of 325 million Shares (namely, the Consideration Shares) upon Completion, credited as fully paid at the agreed deemed price of HK\$0.351 each (representing the cash equivalent of approximately HK\$114 million, which is the sole responsibility of the Company); and
- (b) the balance of HK\$34 million upon Completion, to be satisfied in cash, of which HK\$9.25 million is the sole responsibility of Xingye Industry (i.e. in proportional to its equity interest of 6.25% in the Purchaser) and HK\$24.75 million is the sole responsibility of the Company.

The Consideration Shares will rank *pari passu* in all respect with the existing issued Shares. The issue price of the Consideration Shares represents approximately 32.45% premium to the closing price of the Shares at HK\$0.265 as at the Latest Practicable Date and is equivalent to approximately 7.01% premium to the average closing price of the Shares at HK\$0.328 for the 20 trading days prior to the Latest Practicable Date. The Consideration Shares represent approximately 9.90% of the existing issued share capital of the Company and 9.01% of the issued share capital of the Company, as enlarged by the issue of the Consideration Shares. As the shareholding of the Principal Shareholders in the Company, as at the Latest

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## LETTER FROM THE BOARD OF DIRECTORS

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Practicable Date, is 40.96%, assuming that the Principal Shareholders' aggregate holding of Shares in the Company shall remain unchanged from the Latest Practicable Date till Completion and assuming due Completion, the shareholding of the Principal Shareholders in the Company will be reduced to 37.27%.

The Company intends to appoint director(s) into Linefan and is considering to appoint director(s) into the board of the Linefan Subsidiaries upon Completion. As the Company values the expertise of the Linefan Group's existing management in the Linefan Group's business, it has ensured that no existing members in their board of directors and senior management will leave the Linefan Group notwithstanding Completion. The Group shall finance the Purchaser's cash portion of the Consideration by internal resources.

### CONDITION AND COMPLETION DATE

Pursuant to the Listing Rules, the Acquisition constitutes a major transaction for the Company. Completion is conditional upon fulfillment of, inter alia, the following conditions precedent:

1. the Shareholders' approval of the Agreements and issue of Consideration Shares;
2. the Agreements (including all transactions and actions contemplated thereunder) have been cleared of all the disclosure and approval requirements applicable to the Company under the Listing Rules by the Stock Exchange;
3. a PRC legal opinion in relation to the transactions contemplated by the Agreements in such form and substance to the satisfaction of the Purchaser having been obtained;
4. the Purchaser being satisfied with the result of the due diligence review of the assets, liabilities and operations of the Linefan Group (which include in particular that of the businesses of "search263.net" and "wellpay.com");
5. the Listing Committee of the Stock Exchange granting the listing of and the permission to deal in the Consideration Shares; and
6. a PRC legal opinion which expressly opine that Linefan is the registered owner of respectively 70% and 72.2% equity interest in Beijing Hangfan and Wellpay respectively and the beneficial owner of 84.44% interest in the business of "search263.net" in such form and substance to the satisfaction of the Purchaser having been obtained.

The Company has sought preliminary PRC legal advice in relation to the Acquisition and understands that if the Purchaser's aggregate foreign investment will not exceed 50% of its net asset value from time to time in accordance with The PRC Company Law, (i) The Purchaser

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## LETTER FROM THE BOARD OF DIRECTORS

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will be able to hold the Sale Shares without going through special approval procedure from the relevant PRC regulatory authority, which is different from an acquisition in other industries and (ii) upon Completion, the Linefan Group will be able to continue to carry on its existing business.

From the aforesaid preliminary PRC legal advice, the Company also understands that the Acquisition will be effective upon the following procedures:—

1. the Purchaser having submitted the following documents to the PRC original approval authorities upon which the aforesaid documents will be approved and upon which the business licence of the Purchaser will be endorsed with the seal of the PRC original approval authorities, thereby signifying their approval. The said documents of submission are:—
  - (a) application report;
  - (b) board resolution;
  - (c) balance sheet;
  - (d) investment report (produced by a legally required authority/establishment) which goes to verify that the investment capital of the Purchaser has been duly injected into the Purchaser;
  - (e) operation and administration status report of the Purchaser; and
  - (f) evidence (from the relevant PRC tax authorities) which evidence that all taxation in respect of the Purchaser has been duly paid up by the Purchaser; and
2. Linefan's due registration (within 30 days) of the change of its shareholders with the original approval authorities and to carry out all necessary actions (where applicable) to alter/revise its incorporation documents accordingly.

Completion will take place on the 3rd business day after all the above conditions precedent have been fulfilled/waived by the Purchaser. If the above conditions precedent are not fulfilled/waived by the Purchaser within 3 calendar months, namely, by 14 May 2000 after the date of the Agreements, the Agreements will lapse.

On Completion, there will be no changes to the Company's board of directors as a result of Completion of the Acquisition.



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## LETTER FROM THE BOARD OF DIRECTORS

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### EFFECT ON THE NET ASSETS AND THE EARNINGS OF THE GROUP

Upon Completion, part of the Consideration of HK\$114.075 million will be settled by the Company's issue and allotment of 325 million Shares (namely, the Consideration Shares) and the Group's shares of the goodwill arising from the Acquisition of approximately HK\$137.610 million will be eliminated against reserve. These will result in a decrease of the Group's net assets by approximately HK\$23.535 million. Other than the issue and allotment of the Consideration Shares and the elimination of the goodwill resulting from the Acquisition, the Directors expect that the Acquisition will not have any impact on the net assets of the group. The Directors also expect that the earning basis of the Group will be widened upon Completion of the Acquisition.

### REASON FOR THE ACQUISITION

The Company is an investment holding company. The Group is principally engaged in manufacturing and trading of aluminum extrusion products and trading of aluminum ingots in Hong Kong, the PRC and other overseas markets through foreign trade corporations in the PRC. Notwithstanding that the Group shall maintain and expand its aforesaid "construction/building materials related" core business in full force, the Group values the Acquisition as an excellent and well-timed opportunity to diversify the Group's business to include high technology businesses in order to capture the recent exponential growth of the information technology business worldwide and especially in the PRC, leveraging on the Group's stable cash flow generated by its aforesaid "construction/building materials related" core business.

In light of the Group's well-established business network especially in the PRC, the Group targets to, upon Completion, take full advantage of the business synergy between the Group and the Linefan Group to enhance the lining up of international and PRC providers of information for co-operation in the Linefan Group's development and global distribution of contents via web site.

Adopting a long-term view, the Directors believe that the Group can, in future, conduct the Group's core business via the internet (ie. by way of e-commerce) on top of the traditional sales methods in reliance on the businesses conducted by the Linefan Group.

The Directors believe that a stake in the Linefan Group will definitely prove to be a real asset to the Group in that:

- the Linefan Group has capabilities to enhance the value of contents through digitization, classification, repackaging and database integration;
- the Linefan Group has technical capability to integrate the raw contents sourced into a scalable and flexible data structure that allows themselves to meet the contents requirements of a broad range of customers;

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## LETTER FROM THE BOARD OF DIRECTORS

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- the Linefan Group has extensive experience and knowhow in contents management and internet solutions; and
- the business of "search263.net" (which is owned as to 84.44% by Linefan and which forms part of the Linefan Group's businesses) is the search engine for 263.net (otherwise and better known as "Capital-Online", which is currently one of the top 5 most popular PRC web sites according to the CNNIC Survey.)

Based on the calculations as demonstrated in the sections headed "Consideration" as set out above in this announcement, the Directors believe that the Acquisition at the Consideration is for a value which is fair and reasonable to the Company and its shareholders as a whole.

### APPLICATION FOR LISTING

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in the Consideration Shares.

### GENERAL MANDATES

The Directors will also seek the approval of Shareholders for a general mandate to the Directors to issue and repurchase the Company's securities as enlarged by the Consideration Shares in the SGM ("New Mandates"). At the SGM, the Shareholders will approve specifically the issue and allotment of the Consideration Shares and the New Mandates. At present, the Company has not reached any decision to issue new Shares (aside from the Consideration Shares) upon the approval of the New Mandates.

The existing mandate of the Company to issue and repurchase the Company's securities was approved in a special general meeting on 5 April 2000 (Wednesday), which will be revoked if the New Mandates are approved at the SGM.

### BUSINESS REVIEW AND PROSPECTS

For the six-month period ended 30 June 1999 ("6 months ended 30 June 1999"), the Group's turnover was HK\$267,952,000, representing an increase of 1.4% comparing that for the six months period ended 30 June 1998. The Group's operating profit achieved a significant growth reaching HK\$46,025,000 up 26.1% for the 6 months ended 30 June 1999. The Group's profit attributable to shareholders was HK\$37,413,000 for the 6 months ended 30 June 1999, earmarking an increase of 28.4%. The Company's earnings per share were HK\$ 0.064 for the 6 months ended 30 June 1999.

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## LETTER FROM THE BOARD OF DIRECTORS

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Notwithstanding economic downturn in the East and Southeast Asia including the PRC and Hong Kong which has affected many businesses in the region, the Group has achieved encouraging results for the 6 months ended 30 June 1999. The notable performance obviously gives a credit to its experienced and professional management team and also earmarks the strong penetration in the Group.

During the economic downturn, the Group still maintained normal production schedule in the midst of bad time. For the 6 months ended 30 June 1999, the Group expanded its product portfolio which was developed by the research and development team and promoted new products which are market-oriented to reduce market risk and satisfy various needs of customers. The Group continues to develop manufacturing and industrial products of aluminum extrusion materials in order to capture a larger market share.

At the same time, the Group has opened new markets in Europe and the United States and has been making every attempt to enter into concrete cooperation terms with renowned international conglomerates in that respect. The Group believes that these new markets can generate a significant revenue to the Group in the coming years.

The principal market in the PRC posts growth in demand for better living environment. It is anticipated that aluminum products in the construction industry would be definitely accelerated. Over 60% of the Group's products contracted by the PRC architecture companies or construction bureau are used in large projects. The Group has during the 6 months ended 30 June 1999 continued to broaden its customer base and the Directors believe that the coming economic and housing reforms in the PRC will present good business opportunities for the Group.

As integration is invaluable strategy to ensure raw material supply, facilitate cash flow as well as diversify market risk, in the second half of 1999, the Group has put much effort in the trading of aluminum ingots in order to stabilize the product prices and establish long-term relationship with its suppliers. Prior to the Latest Practicable Date, the Group has also completed its acquisition of Kenlap PGC Manufacturer Company Limited which is principally engaged in the trading and refining of gold material, including inter alia, gold potassium cyanide.

For the coming year, aside from maintaining and expanding its "construction/building material related" core business, the Group is expected to diversify its investment into the metal-related industry, high technology business which will further accelerate the growth rate of the Group.

\* *For identification purposes only*

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## LETTER FROM THE BOARD OF DIRECTORS

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Additionally, the Group is sourcing, in full force, corporate investment opportunities in the PRC which focus on the manufacturing/servicing of reflective coating glasses. Upon crystallization of such investment opportunities, the Group can inevitably further enhance its "construction/building material related" core business to embrace the "one-stop-shop" spirit, which is much aspired to by all other corporate entities in the current commercial market.

### **MATERIAL CHANGE**

Since 31 December 1998 there has been no material adverse change in the financial position or trading position of the Group.

### **SGM**

Set out on pages 72 to 76 of this circular is a notice convening the SGM to be held at Room 2805, 28th Floor, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong, on 5 April 2000 (Wednesday), at which resolutions will be proposed to approve the Acquisition, and the granting of the New Mandates.

Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon possible and in any event less than 48 hours before the SGM.

### **GENERAL**

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

*Note:* The percentage figures as set out in this circular are in approximation only.

By Order of the Board  
**OCEAN GRAND HOLDINGS LIMITED**  
**Yip Kim Po**  
*Chairman*

Hong Kong, 20 March 2000

**1. SHARE CAPITAL**

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

<i>Authorised:</i>	<i>HK\$</i>
10,000,000,000 Shares as at the Latest Practicable Date	1,000,000,000
<i>Issued and fully paid:</i>	
3,281,650,097 Shares as at the Latest Practicable Date	328,165,010
325,000,000 Consideration Shares	32,500,000
<u>3,606,650,097</u>	<u>360,665,010</u>

**2. WARRANTS**

As at Latest Practicable Date, Warrants to subscribe up to HK\$28,228,189 for up to 47,608,723 Shares at the existing subscription price were outstanding. On the basis of the existing subscription price of HK\$0.07 per Share, exercise in full of the Warrants would result in the issue of 47,608,723 Shares and the receipt by the Company of approximately HK\$3,332,611 before expenses.

**3. INDEBTEDNESS****Borrowings**

At the close of business on 31 January 2000, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK\$27 million, comprising bank loans of HK\$18 million overdrafts of approximately HK\$2 million and trust receipts of approximately HK\$7 million.

**Security**

As at 31 January 2000, the Group's banking facilities amounted to approximately HK\$18 million were secured by mortgage over certain properties owned by a director and a related company, personal guarantees given by a director and a corporate guarantee given by a related company. The remaining HK\$9 million were unsecured and a corporate guarantee was given by the Company.

**Contingent liabilities**

As at 31 January 2000, the Group does not have any contingent liabilities.

The directors confirm that, save as disclosed above, there has been no material change in the indebtedness and contingent liabilities of the Group since 31 January 2000.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange in effect at the close of business in 31 January 2000.

**4. WORKING CAPITAL**

Taking into account the internally-generated funds, the available banking facilities, the existing cash and bank balances and the Consideration payable in connection with the Acquisition, the Directors are of the opinion that the Group has sufficient working capital for its present requirements.

**5. AUDITED CONSOLIDATED FINANCIAL STATEMENTS**

The following is a summary of the audited consolidated profit and loss accounts of the Group for the three years ended 31 December 1996, 1997 and 1998, respectively, extracted from the prospectus of the Group dated 9 September 1997 and the annual reports for the years ended 31 December 1997 and 1998, and the audited balance sheets of the Group as at 31 December 1997 and 1998 respectively, together with the notes to the financial statements, extracted from the annual reports of the Group for the year ended 31 December 1998.

## Consolidated Profit and Loss Accounts

		1998	1997	1996
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	<u>609,402</u>	<u>636,250</u>	<u>413,425</u>
Profit before taxation	4	72,012	90,390	69,834
Taxation	6	<u>(14,070)</u>	<u>(170)</u>	<u>–</u>
Profit before minority interests		57,942	90,220	69,834
Minority interests		<u>(4,772)</u>	<u>(6,972)</u>	<u>(4,788)</u>
Profit attributable to shareholders	7	53,170	83,248	65,046
Retained profit, beginning of year		110,334	65,046	–
Dividends	8	<u>(5,632)</u>	<u>(38,160)</u>	<u>–</u>
Retained profit, end of year	9	<u>157,672</u>	<u>110,134</u>	<u>65,046</u>
Earnings per share	10			
– Basic ( <i>Note 4</i> )		<u>9.4 cents</u>	<u>18.1 cents</u>	<u>15.4 cents</u>
– Diluted ( <i>Note 4</i> )		<u>9.3 cents</u>	<u>18.1 cents</u>	<u>15.4 cents</u>

*Note:* The consolidated profit and loss account of the Group for the year ended 31 December 1996 was prepared on the assumption that the current structure of the Group was in existence throughout the year.

## Consolidated Balance Sheets

		1998	1997
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Fixed assets	11	262,470	250,011
Investment in subsidiaries	12	–	–
Current assets	13	291,718	260,598
Current liabilities	14	(172,129)	(143,012)
Long-term bank loans	15	(15,478)	(46,459)
		<u>366,581</u>	<u>322,038</u>
Representing:			
Share capital	16	56,320	56,320
Reserves	19	135,215	135,215
Retained profit	9	157,672	110,134
Shareholders' equity		349,207	301,669
Minority interests		17,374	20,369
		<u>366,581</u>	<u>322,038</u>



**Notes to the Financial Statements**

*(Amounts expressed in Hong Kong dollars unless otherwise stated)*

**1. PRINCIPAL ACCOUNTING POLICIES**

The 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 and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

**a. Basis of consolidation**

The consolidated financial statements include the accounts of Ocean Grand Holdings Limited (the “Company”) and its subsidiaries (together the “Group”). The results of subsidiaries acquired or disposed during the year are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

**b. Subsidiaries**

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued voting share capital as a long-term investment. In the Company’s financial statements, investment in subsidiaries is stated at cost less provision for any permanent diminution in value, while income from subsidiaries is recorded to the extent of dividends received and receivable.

**c. Turnover and revenue recognition**

Turnover comprised (i) the net invoiced value (excluding value-added tax) of merchandise sold after allowances for returns and discounts, and (ii) subcontracting fees.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Sales revenue is recognised when the merchandise is shipped and title has passed. Subcontracting fee is recognised when the service is performed. Rental income is recognised when rental become due and receivable. Interest income is recognised on a time proportion basis on the principal outstanding and at the rates applicable.

**d. Taxation**

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

**e. Fixed assets and depreciation**

Fixed assets, other than land and buildings, are stated at cost less accumulated depreciation. Land and buildings are stated at valuation less accumulated depreciation. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided for on a straight-line basis to write off the cost or the revalued amount of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Land	2% (lease terms)
Buildings	4%
Machinery	10%
Furniture, equipment and motor vehicles	10% to 25%

Land and buildings are subject to independent valuation every two years with the last valuation performed on 31 December 1997. In the intervening period, the Directors review the carrying value of land and buildings and adjustment is made where in the Directors' opinion there has been a material change in value. Any increase in valuation of land and buildings is credited to the fixed assets revaluation reserve; any decrease is firstly offset against an increase on earlier valuation in respect of the same land and buildings and is thereafter charged to the profit and loss account.

Gains or losses on disposals of fixed assets are recognised in the profit and loss account based on the net disposal proceeds less the carrying amount of the assets, with previously recognised revaluation surpluses transferred from fixed assets revaluation reserve to retained profit.

Construction-in-progress represents factory buildings under construction and machinery pending installation. It is stated at cost, which includes the original cost of land, construction expenditures incurred, machinery and related installation costs, and other direct costs attributable to the construction of the buildings. No depreciation is provided.

**f. Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost includes costs of raw materials calculated on the weighted average method of costing and, in cases of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

**g. Leases**

Finance leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets are transferred to the Group. Fixed assets held under finance leases are initially recorded at the present value of the minimum payments at the inception of the leases, with equivalent liabilities categorised as appropriate under current or non-current liabilities. Interest expenses, which represent the difference between the minimum payments at the inception of the finance leases and the corresponding fair value of the assets acquired, are allocated to accounting periods over the period of the relevant leases to produce a constant rate of charge on the outstanding balances.

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the profit and loss account on a straight-line basis over the period of the relevant leases.

**h. Foreign currency translation**

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date; non-monetary assets and liabilities denominated in other currencies are translated at historical rates. Exchange gains or losses are dealt with in the profit and loss accounts of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, all of the assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; all of the income and expense items of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the average applicable exchange rates during the year. Exchange differences arising from such translations are dealt with as movements of cumulative translation adjustments.

## 2. RELATED PARTY TRANSACTIONS

A related company is a company in which one or more directors or substantial shareholders of the Company and/or its ultimate holding company either have a beneficial interest or are in a position to exercise significant influence therein.

- a. Particulars of significant transactions between the Group and related companies are summarised below:

	1998 HK\$'000	1997 HK\$'000
Management fees paid to Kenlap (Holding) Limited *	1,549	2,376
Rental expenses paid to Nanhai Dali Xingye Bronze and Aluminium Products Factory #	470	470
Rental income received from Global Credit Holdings Limited *	<u>1,415</u>	<u>—</u>

\* *Kenlap (Holding) Limited and Global Credit Holdings Limited are beneficially owned and controlled by Mr. Yip Kim Po, a director of the Company.*

# *Nanhai Dali Xingye Bronze and Aluminium Products Factory is beneficially owned and controlled by Mr. Yip Lai Po, a director of the Company.*

A significant portion of the management fees paid to Kenlap (Holding) Limited represented reimbursements of rental expenses for office space in Hong Kong up to 30 June 1998, which was paid by Top Country International Limited, a subsidiary of Kenlap (Holding) Limited. Rental income received from Global Credit Holdings Limited resulted from sub-leasing part of the Group's office space to that company.

*In the opinion of the Directors of the Company, the above related party transactions were carried out in the usual course of business and on normal commercial terms.*

- b. The outstanding balances with related companies and directors were unsecured, non-interest bearing and repayable on demand (see Notes 14.c and 14.d).

## 3. TURNOVER AND REVENUE

Analysis of turnover and revenue in the consolidated profit and loss account is as follows:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Sales revenue	620,655	634,671
Subcontracting fees	–	9,978
	<u>620,655</u>	<u>644,649</u>
Less: PRC value-added tax (a)	(11,253)	(11,215)
	<u>609,402</u>	<u>633,434</u>
Gain on commodity dealings	–	2,816
	<u>609,402</u>	<u>636,250</u>
Total turnover	609,402	636,250
Rental income	1,415	–
Interest income	3,535	2,119
	<u>614,352</u>	<u>638,369</u>
Total revenue	<u><u>614,352</u></u>	<u><u>638,369</u></u>

*Note:*

**a. PRC value-added tax**

The Group's sales in the People's Republic of China (the "PRC") are carried out by Nanhai Xingye Shaped Bronze & Aluminium Products Co., Ltd. ("Nanhai Xingye"), a subsidiary established and operated at Nanhai, Guangdong Province, the PRC. Such sales revenue is subject to value-added tax ("VAT") at a rate of 17% on the selling price. An input credit is available whereby input VAT previously paid on purchases can be used to offset the output VAT on sales revenue to determine the net VAT payable. For the year ended 31 December 1997, the net VAT paid/payable by Nanhai Xingye was based on the amount confirmed by the Nanhai tax bureau on an annual basis at an amount of approximately HK\$11,215,000. For the year ended 31 December 1998, the net VAT paid/payable by Nanhai Xingye of approximately HK\$11,253,000 was determined at a rate of 2% on the selling price, as confirmed by the Nanhai tax bureau, which is substantially lower than the standard rate. If Nanhai Xingye had to pay VAT at the standard rate according to the PRC tax law, the Group's net VAT payable for the year ended 31 December 1998 would be increased by approximately HK\$71,725,000 (1997 – HK\$80,354,000), of which approximately HK\$4,482,000 (1997 – HK\$5,022,000) should be recorded as reduction of minority interests.

## 4. PROFIT BEFORE TAXATION

Profit before taxation in the consolidated profit and loss account was determined after charging or crediting the following items:

	1998 HK\$'000	1997 HK\$'000
<b>After charging:</b>		
Cost of stocks sold (excluding provision for slow-moving and obsolete stocks)	484,505	489,456
Interest expenses on		
– bank borrowings wholly repayable within five years	12,546	10,196
– other borrowings wholly repayable within one year	677	–
– finance leases	353	1,896
Operating lease rentals in respect of rented premises from		
– third parties	3,247	29
– related parties	470	470
Advertising expenses	8,993	1,869
Depreciation of fixed assets		
– owned assets	15,325	10,656
– assets held under finance leases	5,618	5,618
Net loss on disposal/write-off of fixed assets	–	1,261
Provision for bad and doubtful debts	5,600	934
Provision for slow-moving and obsolete stocks	–	934
Auditors' remuneration	975	850
Net exchange loss	138	–
	<u>          </u>	<u>          </u>
<b>After crediting:</b>		
Interest income from bank deposits	3,535	2,119
Rental income from a related party	1,415	–
Net gain on disposal of fixed assets	2,303	–
Option fee ( <i>Note a</i> )	380	–
Net exchange gain	–	173
	<u>          </u>	<u>          </u>

*Note:*

- a. In June 1998, the Company had underwritten a put option for a third party to sell to the Company an equity interest of a company incorporated in the PRC at a consideration of HK\$42,000,000, and received an option fee of approximately HK\$380,000. The put option expired on 31 December 1998.

## 5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

a. Details of directors' emoluments were:

	1998 HK\$ '000	1997 HK\$ '000
Fees for executive directors	–	–
Fees for non-executive directors	863	210
Other emoluments for executive directors		
– Basic salaries and allowances	5,667	1,936
– Bonus *	–	4,382
Other emoluments for non-executive directors	–	–
	<u>6,530</u>	<u>6,528</u>

\* *Mr. Yip Kim Po, a director of the Company, is entitled to a gratuitous year-end bonus determined at 5% of the Group's audited consolidated profit after taxation and minority interests but before exceptional items when the amount of such profit exceeds HK\$80,000,000.*

No directors waived any emoluments during the year.

Analysis of directors' emoluments by number of directors and emolument ranges was as follows:

	1998	1997
Executive directors		
– Nil to HK\$1,000,000	9	7
– HK\$1,000,001 to HK\$1,500,000	1	–
– HK\$5,000,001 to HK\$5,500,000	–	1
Non-executive directors		
– Nil to HK\$1,000,000	4	3
	<u>14</u>	<u>11</u>

- b. Details of emoluments of the five highest paid individuals (including directors and other employees) were:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Basic salaries and allowances	4,241	2,329
Bonus	—	4,382
	<u>4,241</u>	<u>6,711</u>

The five highest paid employees during the year included five (1997 – two) executive directors, details of whose emoluments had been included in Note 5.a.

During the year, no emoluments of the five highest paid individuals (including directors and other employees) was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

Analysis of emoluments paid to the five highest paid individuals (including directors and other employees) by number of individuals and emolument ranges was as follows:

	1998	1997
Nil to HK\$1,000,000	4	4
HK\$1,000,001 to HK\$1,500,000	1	—
HK\$5,000,001 to HK\$5,500,000	—	1
	<u>5</u>	<u>5</u>

## 6. TAXATION

The Company is exempted from taxation in Bermuda until March 2016.

Taxation in the consolidated profit and loss account comprised:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Current taxation		
– Hong Kong profits tax	51	170
– PRC enterprise income tax	14,019	—
	<u>14,070</u>	<u>170</u>

Hong Kong profits tax was provided at the rate of 16% (1997 – 16.5%) on the estimated assessable profit arising in or derived from Hong Kong.



Nanhai Xingye Shaped Bronze & Aluminium Products Co., Ltd. ("Nanhai Xingye") is a subsidiary established and operated in the open coastal areas of the PRC, and is subject to PRC income taxes at a rate of 27% (24% state tax and 3% local tax). However, it is exempted from PRC state income tax and local income tax for two years starting from the first year of profitable operations, followed by a 50% reduction for the following three years. The first year of profitable operations of Nanhai Xingye was the year ended 31 December 1996. For the year ended 31 December 1998, PRC enterprise income tax for Nanhai Xingye was provided at 14% (12% state tax and 2% local tax), as confirmed by Nanhai Tax bureau, on the estimated total taxable income. If the tax holiday of Nanhai Xingye did not exist, the Group's provision for PRC enterprise income tax for the year ended 31 December 1998 would have been increased by approximately HK\$9,579,000 (1997 – HK\$28,235,000) (net of minority interests).

As at 31 December 1998, the Group had an unprovided deferred tax liability of approximately HK\$8,548,000 (1997 – HK\$8,548,000), representing the tax effect on the surpluses arising on the revaluation of the Group's land and buildings in the PRC, of which an amount of HK\$8,014,000 (1997 – HK\$8,014,000) should be recorded as reduction of fixed assets revaluation reserves and HK\$534,000 (1997 – HK\$534,000) as reduction of minority interest. The deferred tax liability has not been provided as the Company's Directors are of the view that the related land and buildings will not be disposed of in the foreseeable future and, accordingly, such deferred tax liability will not crystallise in the foreseeable future.

The other major components of timing differences not provided for in the financial statements are analysed below:

	1998	1997
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
Accelerated depreciation allowances	50	–
Accumulated depreciation charges in excess of depreciation allowances	–	(202)
Cumulative tax losses carried forward	(28,575)	(15,890)
	<u>(28,525)</u>	<u>(16,092)</u>

## 7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of approximately HK\$5,795,000 (1997 – HK\$28,221,000) dealt with in the financial statements of the Company.

**8. DIVIDENDS**

Dividends comprised:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Interim dividend of 1.0 cent (1997 – Nil) per share	5,632	–
Proposed final dividend – Nil (1997 – 5.0 cents) per share	–	28,160
Dividend paid by a subsidiary to its then shareholders prior to a group reorganisation	–	10,000
	<u>5,632</u>	<u>38,160</u>

**9. RETAINED PROFIT**

Retained profit comprised:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Subsidiaries	157,448	110,073
	<u>157,672</u>	<u>110,134</u>

**10. EARNINGS PER SHARE**

The calculation of basic earnings per share for the year ended 31 December 1998 was based on the consolidated profit attributable to shareholders of approximately HK\$53,170,000 (1997 – HK\$83,248,000) and on the weighted average number of 563,200,000 (1997 – 460,975,342) shares in issue during the year ended 31 December 1998.

The calculation of diluted earnings per share for the year ended 31 December 1998 was based on the consolidated profit attributable to shareholders of approximately HK\$53,170,000 (1997 – HK\$83,248,000) and the diluted weighted average of 569,087,225 (1997 – 460,975,342) shares in issue during the year. It has been calculated after taking into account of all dilutive instruments. The effect of the dilutive potential ordinary shares resulting from the outstanding share options on the weighted average number of shares in issue during the year was 5,887,225 (1997 – Nil) shares which were deemed to be issued at no consideration if all outstanding share options have been exercised on the date when the options were granted. For the years ended 31 December 1997 and 1998, the effect of the dilutive potential ordinary shares resulting from the outstanding warrants was not considered because it was anti-dilutive. For the year ended 31 December 1997, there was no dilutive potential ordinary shares for the year ended 31 December 1997.

## 11. FIXED ASSETS

## a. Movements of fixed assets (consolidated) were

	1998				1997	
	Land and buildings	Construction-in-progress	Machinery	Furniture, equipment and motor vehicles	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost/Valuation</b>						
Beginning of year	120,452	18,626	146,521	6,338	291,937	197,418
Additions	351	3,072	32,713	1,222	37,358	73,935
Disposals/write-off	–	(2)	(15,959)	(45)	(16,006)	(1,543)
Transfers	11,295	(16,967)	5,672	–	–	–
Revaluation surpluses	–	–	–	–	–	22,127
End of year	<u>132,098</u>	<u>4,729</u>	<u>168,947</u>	<u>7,515</u>	<u>313,289</u>	<u>291,937</u>
Representing						
At cost	17,452	4,729	168,947	7,515	198,643	177,291
At valuation	<u>114,646</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>114,646</u>	<u>114,646</u>
	<u>132,098</u>	<u>4,729</u>	<u>168,947</u>	<u>7,515</u>	<u>313,289</u>	<u>291,937</u>
<b>Accumulated depreciation</b>						
Beginning of year	1,396	–	36,956	2,674	41,026	31,397
Provision for the year	4,117	–	15,557	1,269	20,943	16,274
Write-back on disposals/write-off	–	–	(11,138)	(12)	(11,150)	(282)
Write-back upon revaluation	–	–	–	–	–	(6,363)
End of year	<u>5,513</u>	<u>–</u>	<u>41,375</u>	<u>3,931</u>	<u>50,819</u>	<u>41,026</u>
<b>Net book value</b>						
End of year	<u>126,585</u>	<u>4,729</u>	<u>127,572</u>	<u>3,584</u>	<u>262,470</u>	<u>250,911</u>
Beginning of year	<u>119,056</u>	<u>18,626</u>	<u>109,565</u>	<u>3,664</u>	<u>250,911</u>	<u>166,021</u>

**b. Land and buildings**

All of the land and buildings are located in the PRC. As at 31 December 1998, approximately HK\$122,230,000 (1997 – HK\$114,646,000) of the net book value of the land and buildings were held under land use rights of 30 and 50 years expiring in 2027 and 2046, and approximately HK\$4,355,000 (1997 – HK\$4,410,000) of the net book value of the land and buildings were located on land to which the Group does not have land use rights.

As at 31 December 1998, approximately HK\$114,646,000 (1997 – HK\$114,646,000) of the cost of the land and buildings were stated at open market value at 31 December 1997 as determined by Brooke Hillier Parker Services Limited, independent qualified valuers. As at 31st December 1998, land and buildings with net book value of approximately HK\$99,502,000 (1997 – HK\$107,137,000) were mortgaged as collateral for the Group's banking facilities (see Note 23).

**c. Construction-in-progress**

Construction-in-progress comprised:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Construction expenditures for factory buildings	4,558	14,891
Machinery cost	171	3,735
	<u>4,729</u>	<u>18,626</u>

The factory buildings under construction are located on land in the PRC, which are held under land use rights of 30 and 50 years expiring in 2027 and 2046.

**d. Machinery**

As at 31 December 1998, machinery with a net book value of approximately HK\$23,727,000 (1997 – HK\$28,115,000) was pledged as collateral for the Group's banking facilities (see Note 23).

**12. INVESTMENT IN SUBSIDIARIES**

In the Company's balance sheet, investment in subsidiaries comprised:

	Company	
	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Unlisted shares, at cost	200,023	200,023
Due from subsidiaries	124,967	123,544
	<u>324,990</u>	<u>323,567</u>

The amounts due from subsidiaries were unsecured, non-interest bearing and without pre-determined repayment terms. The Company has agreed not to demand repayment from the subsidiaries until the subsidiaries are financially capable to do so.

The underlying value of the investment in subsidiaries was, in the opinion of the Company's Directors, not less than the carrying value as at 31 December 1998. Details of the subsidiaries as at 31 December 1998 were:

Name	Place of incorporation and operations	Issued and fully paid share capital	Percentage of equity interest attributable to the Group (a)	Principal activities
Toowomba Holdings Limited	British Virgin Islands	US\$100	100%	Investment holding
Hing Yip Holdings (Hong Kong) Limited	Hong Kong	HK\$100 ordinary HK\$100 non-voting deferred (b)	100% –	Investment holding and trading of aluminium products and aluminium ingots
Nanhai Xingye Shaped Bronze & Aluminium Products Co., Ltd.(c)	The PRC	US\$12,000,000	93.75%	Manufacture and sale of aluminium products and aluminium ingots
Hing Yip Holdings (China) Limited	Hong Kong	HK\$2	100%	Inactive
Jorki Profits Limited	British Virgin Islands	US\$1	100%	Inactive

*Notes:*

- a. The shares of Toowomba Holdings Limited were held by the Company directly. The shares of other subsidiaries were held indirectly.
- b. The non-voting deferred shares were not owned by the Group. These shares have no voting rights, are not entitled to dividends unless the net profit of Hing Yip Holdings (Hong Kong) Limited exceeds HK\$1,000,000,000,000 and are not entitled to any distributions upon winding up unless a sum of HK\$5,000,000,000 has been distributed by Hing Yip Holdings (Hong Kong) Limited to the holders of ordinary shares.
- c. Nanhai Xingye Shaped Bronze & Aluminium Products Co., Ltd. is a sino-foreign equity joint venture established in the PRC for a period of 30 years expiring in 2025.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 December 1998.

## 13. CURRENT ASSETS

Current assets comprised:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Stocks (a)	14,648	10,846
Deposits and prepayments (b)	11,535	20,711
Advances to a related company (c)	–	3,767
Advances to a director (d)	–	–
Loans receivable	–	23,926
Accounts receivable (e)	127,569	54,516
Dividend receivable from a subsidiary	–	–
Cash and bank deposits (f)	137,966	146,832
	<u>291,718</u>	<u>260,598</u>

*Notes:***a. Stocks**

Stocks comprised

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Raw materials	10,423	6,815
Work-in-progress	1,718	1,016
Finished goods	3,441	3,949
	<u>15,582</u>	<u>11,780</u>
Less: Provision for slow-moving and obsolete stocks	(934)	(934)
	<u>14,648</u>	<u>10,846</u>

Certain stocks were held under import trust receipts bank loan arrangements (see Note 23).

**b. Deposits and prepayments**

Deposits and prepayments comprised

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Prepaid advertising expenses	8,956	17,398
Deferred arrangement fee of a syndicated bank loan	607	1,036
Deposits	1,617	1,483
Others	355	794
	<u>11,535</u>	<u>20,711</u>

## c. Advances to a related company

Advances to a related company comprised:

Name	Outstanding balance as at 31 December 1998 HK\$'000	Outstanding balance as at 31 December 1997 HK\$'000	Maximum outstanding balance during the year ended 31 December 1998 HK\$'000
Kenlap (Holding) Limited *	—	3,767	3,767

\* *Kenlap (Holding) Limited is beneficially owned and controlled by Mr. Yip Kim Po, a director of the Company.*

The outstanding balance with the related company was unsecured, non-interest bearing and repayable on demand.

## d. Advances to a director

Advances to a director comprised:

Name	Outstanding balance as at 31 December 1998 HK\$'000	Outstanding balance as at 31 December 1997 HK\$'000	Maximum outstanding balance during the year ended 31 December 1998 HK\$'000
Mr. Yip Lai Po	—	—	209

The outstanding balance with director was unsecured, non-interest bearing and repayable on demand.

## e. Accounts receivable

Accounts receivable comprised:

	1998 HK\$'000	1997 HK\$'000
Trade receivable	134,103	55,450
Less: Provision for bad and doubtful debts	(6,534)	(934)
	<u>127,569</u>	<u>54,516</u>

As at 31 December 1998, approximately HK\$105,550,000 (1997 – HK\$53,306,000) of the accounts receivable were denominated in Chinese Renminbi.

## f. Cash and bank deposits

Cash and bank deposits comprised:

	1998 HK\$'000	1997 HK\$'000
Deposits placed with		
– banks	114,623	144,735
– trust companies	22,988	1,680
	<u>137,611</u>	<u>146,415</u>
Cash on hand	355	417
	<u>137,966</u>	<u>146,832</u>

As at 31 December 1998, approximately HK\$121,731,000 (1997 – HK\$109,119,000) of the Group's bank deposits were denominated in Chinese Renminbi and placed with banks and trust companies in the PRC.

## 14. CURRENT LIABILITIES

Current liabilities comprised:

	1998 HK\$'000	1997 HK\$'000
Short-term bank borrowings (a)	37,220	14,866
Other short-term borrowings (b)	5,238	–
Current portion of long-term bank loan ( <i>Note 15</i> )	38,696	30,987
Current portion of finance lease obligations	–	7,750
Advances from related companies (c)	1,726	–
Advances from directors (d)	3,688	–
Accounts payable	12,321	748
Deposits from a customer	1,124	–
Accrued liabilities	13,435	23,871
Staff welfare fund (e)	1,880	1,880
Taxation payable (f)	56,801	34,750
Proposed dividend	–	28,160
	<u>172,129</u>	<u>143,012</u>



Notes:

a. **Short-term bank borrowings**

Short-term bank borrowings comprised:

	1998 HK\$'000	1997 HK\$'000
Bank overdrafts, unsecured	2,475	2,016
Import trust receipts bank loans, secured	34,745	12,850
	<u>37,220</u>	<u>14,866</u>

Refer to Note 23 for details of the Group's banking facilities.

b. **Other short-term borrowings**

As at 31 December 1998, approximately HK\$2,138,000 of the other short-term borrowings of the Group and the Company was secured by 30,000,000 shares of the Company of HK\$0.10 each owned by Holylake Resources Limited, the ultimate holding company.

c. **Advances from related companies**

Advances from related companies comprised:

	1998 HK\$'000	1997 HK\$'000
Global Credit Securities Limited *	1,400	—
Grand Prosperous Company Limited *	326	—
	<u>1,726</u>	<u>—</u>

\* *Global Credit Securities Limited (formerly known as Kenlap Securities Limited) and Grand Prosperous Company Limited are beneficially owned and controlled by Mr. Yip Kim Po, a director of the Company.*

The outstanding balances with related companies were unsecured, non-interest bearing and repayable on demand.

## d. Advances from directors

Advances from directors comprised:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Mr. Yip Kim Po	1,627	–
Mr. Tang Hin Lun	2,000	–
Mr. Yip Lai Po	61	–
	<u>3,688</u>	<u>–</u>

The outstanding balances with directors were unsecured, non-interest bearing and repayable on demand.

## e. Staff welfare fund

This represented provision for staff welfare fund relating to Nanhai Xingye Shaped Bronze & Aluminium Products Co., Ltd. (“Nanhai Xingye”), a subsidiary incorporated and operated in the PRC. In accordance with the PRC regulations and the recommendation of the Board of Directors of Nanhai Xingye, the staff welfare fund is provided at 2% of the statutory after-tax profit of Nanhai Xingye. The fund is for welfare expense of the employees of Nanhai Xingye. The directors of Nanhai Xingye decided not to make any appropriation to staff welfare fund for the year ended 31 December 1998.

## f. Taxation payable

Taxation payable comprised:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
PRC value-added tax ( <i>Note 3.a</i> )	42,561	34,580
PRC enterprise income tax ( <i>Note 6</i> )	14,019	–
Others	221	170
	<u>56,801</u>	<u>34,750</u>

## 15. LONG-TERM BANK LOAN

Details of long-term bank loan, which was secured, were:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Amount repayable within a period		
– not exceeding one year	38,696	30,987
– more than one year but not exceeding two years	15,478	30,987
– more than two years but not exceeding five years	–	15,472
	<u>54,174</u>	<u>77,446</u>
Less: Amount due within one year included under current liabilities ( <i>Note 14</i> )	<u>(38,696)</u>	<u>(30,987)</u>
	<u>15,478</u>	<u>46,459</u>

Long-term bank loan represented a syndicated loan denominated in United States dollars, bearing interest at the United States of America prime lending rate plus 2%, which was 9.75% per annum as at 31 December 1998. Refer to Note 23 for collaterals relating to this syndicated loan.

As at 31 December 1998, approximately HK\$7,709,000 of the long-term bank loan was overdue for approximately two months, and this overdue amount was settled subsequent to year end.

## 16. SHARE CAPITAL

Details of the Company's share capital were as follows:

	1998		1997	
	Number of shares '000	Nominal value <i>HK\$'000</i>	Number of shares '000	Nominal value <i>HK\$'000</i>
Authorised (shares of HK\$0.10 each)	<u>1,000,000</u>	<u>100,000</u>	<u>1,000,000</u>	<u>100,000</u>
Issued and fully paid	<u>563,200</u>	<u>56,320</u>	<u>563,200</u>	<u>56,320</u>

**17. WARRANTS**

On 23 September 1997, the Company issued warrants conferring rights to subscribe up to \$140,800,000 for shares in the Company, at an initial subscription price of \$1.25 per share (subject to adjustments), on the basis of one warrant for every five shares in the Company then prevailing. These warrants were cancelled upon the expiry of the Subscription Period.

In October 1999, the Company issued warrants conferring rights to subscribe up to 157,804,000 for shares in the Company at an initial subscription price of \$0.20 per Share. Pursuant to the Company's bonus issue of Shares in December 1999, the subscription price of the Warrants was adjusted from \$0.20 per Share to \$0.07 per Share with effect from 26 November 1999 in accordance with the terms of the instrument in respect of the Warrants.

As at Latest Practicable Date, Warrants with aggregate gross issue proceeds of \$28,228,189 were exercised by the holders of the Warrants subscribe for 2,312,000 shares and 396,654,097 Shares at a subscription price of \$0.20 and \$0.07 per Share respectively.

The exercise in full of the outstanding Warrants would, under the existing capital structure of the Company, result in the issue of 47,608,723 new Shares with gross issue proceeds of HK\$3,332,611. Any unexercised Warrants will expire on 31 December 2000.

**18. SHARE OPTIONS**

The Company has a share option scheme, under which it may grant options to employees (including executive directors) of the Group to subscribe for shares in the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time excluding for this purpose shares issued on exercise of options. The subscription price will be determined by the Company's Board of Directors, and will be the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of offer of the options. No share options may be granted to any one person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25% of the aggregate number of shares for the time being issued and issuable under the Scheme.

*Share options commencing from 27 March 1998 and expiring on 3 September 2007*

On 27 March 1998, the Company granted certain share options in favour of its executives and directors. The share options entitle the holders to subscribe for Shares at an exercise price of HK\$0.37 per Share at any time within the period from 27 March 1998 to 3 September 2007. The exercise price is adjustable in accordance with the provisions of the Scheme.

At the beginning of the year, the outstanding share option were 14,500,000. Pursuant to the Company's bonus issue of Shares in December 1999, the auditors of the Company, Arthur Andersen & Co., have confirmed that subject to such bonus issue of Shares, the maximum number of Shares to be issued pursuant to exercise of any share options pursuant to the Scheme will be increased from 75,279,840 Shares to 254,839,520 Shares and that the exercise price of the captioned share options be adjusted from \$0.37 per Share to \$0.12 per Share.

Since the date of grant and up to the Latest Practicable Date, the holders of the captioned share options exercised 45,500,000 share options to subscribe for 45,500,000 Shares with gross issue proceeds of approximately \$14,460,000.

*Share options commencing from 14 December 1999 and expiring on 3 September 2007*

Subsequent to the balance sheet date, on 10 December 1999, the Company granted 182,000,000 share options in favour of its executives and directors. The share options entitled the holders to subscribe for Shares at an exercise price of HK\$0.07728 per Share at any time within the period from 14 December 1998 to 3 September 2007. The exercise price is adjustable in accordance with the provisions of the Scheme. Since the date of grant and up to the date of the approval of these financial statements, the holders of the captioned share options exercised all share options to subscribe for the Shares with gross issue proceeds of approximately HK\$14,064,960.

## 19. RESERVES

Movements of reserves were:

	1998						1997	
	Share premium HK\$'000	Statutory reserves (a) HK\$'000	Capital reserve (b) HK\$'000	Contributed surplus (c) HK\$'000	Fixed assets revaluation reserves HK\$'000	Cumulative translation adjustments HK\$'000	Total HK\$'000	Total HK\$'000
<b>Consolidated</b>								
Beginning of year	66,400	15,079	27,206	-	26,710	(180)	135,215	42,105
Premium arising from issue of shares	-	-	-	-	-	-	-	126,720
Net expenditures on issue of shares	-	-	-	-	-	-	-	(18,380)
Capitalisation of share premium	-	-	-	-	-	-	-	(41,940)
Surplus on revaluation of land and buildings (net of minority interests)	-	-	-	-	-	-	-	26,710
End of year	<u>66,400</u>	<u>15,079</u>	<u>27,206</u>	<u>-</u>	<u>26,710</u>	<u>(180)</u>	<u>135,215</u>	<u>135,215</u>

### a. Statutory reserves

Statutory reserves include discretionary surplus reserve, statutory reserve fund and enterprise development fund relating to Nanhai Xingye. As stipulated by PRC regulations and pursuant to the provisions of Nanhai Xingye's articles of association, the appropriations of profit to the statutory reserves are made pursuant to the recommendation of Nanhai Xingye's Board of Directors. Discretionary surplus reserve can be utilised to offset prior years' losses or for issuance of bonus shares, statutory reserve fund may be distributed to shareholders in the form of share bonus issues and/or cash dividends, and enterprise development fund is distributable only upon Nanhai Xingye's liquidation.

The Directors of Nanahi Xingye decided not to make any appropriation to discretionary surplus reserve, statutory reserve fund and enterprise development fund for periods subsequent to 31 December 1995. The statutory reserves of the Group comprised:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Discretionary surplus reserve	5,799	5,799
Statutory reserve fund	4,640	4,640
<i>Enterprise development fund</i>	4,640	4,640
	<u>15,079</u>	<u>15,079</u>

**b. Capital reserve**

Capital reserve comprised (i) capital reserve of the subsidiaries, and (ii) the difference between the aggregate nominal amount of the share capital issued by the Company in exchange for the aggregate nominal amount of the share capital of subsidiaries as at 4 September 1997.

**c. Contributed surplus**

Contributed surplus represented the difference between the aggregate net asset value of subsidiaries acquired and the nominal amount of the Company's shares issued for the acquisition. Under The Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they became due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

The Company's reserves (excluding retained profit) as at 31 December 1998 available for distribution to shareholders are represented by the contributed surplus of approximately HK\$199,722,000 (1997 – HK\$199,722,000).

## 20. COMMITMENTS AND CONTINGENT LIABILITIES

## a. Capital commitments

Capital commitments in respect of the Group's Year 2000 compliance project not provided for in the financial statements were as follows:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Authorised and contracted for	<u>250</u>	<u>1,327</u>

## b. Operating lease commitments

As at 31 December 1998, the Group had lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to 2025 amounting to approximately HK\$13,958,000 (1997 – HK\$16,092,000). The amounts of commitments payable within the next twelve months are analysed as follows:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Leases expiring		
– within one year	164	1,263
– within two to five years	255	400
– over five years	470	470
	<u>889</u>	<u>2,133</u>

## c. Contingent liabilities

Contingent liabilities not provided for in the financial statements were as follows:

	1998 <i>HK\$'000</i>	1997 <i>HK\$'000</i>
Corporate guarantees given by the Company in respect of banking facilities of its subsidiaries	–	–
Discounted bills with recourse	<u>379</u>	–
	<u>379</u>	–

**21. PENSION SCHEME**

As stipulated by PRC regulations, Nanhai Xingye, maintains a defined contribution retirement plan for all of its employees commencing from 1 January 1997. All retired employees of Nanhai Xingye are entitled to an annual pension equal to their basic annual salary upon retirement. Nanhai Xingye contributes to a state sponsored retirement plan approximately 5% of the basic salary of its employees, and has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions. The state sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. The Group's contributions for the year ended 31 December 1998 amounted to approximately HK\$286,000 (1997 – HK\$220,000).

The other group companies did not have any provident fund scheme for their employees. As at 31 December 1998, the Group had no significant obligation for long service payments to its employees pursuant to the Hong Kong Employment Ordinance.

**22. BANKING FACILITIES AND PLEDGE OF ASSETS**

As at 31 December 1998, the Group had aggregate banking facilities of approximately HK\$127,175,000 (1997 – HK\$161,446,000), comprising (i) approximately HK\$54,175,000 (1997 – HK\$77,446,000) for a syndicated loan; and (ii) approximately HK\$73,000,000 (1997 – HK\$84,000,000) for bank overdrafts, short-term loans and trade financing. Unused facilities as at the same date amounted to approximately HK\$35,401,000 (1997 – HK\$60,877,000).

The syndicated loan was secured by:

- (i) Fixed charges on certain land and buildings and certain machinery of Nanhai Xingye, with an aggregated net book value of approximately HK\$123,229,000 as at 31 December 1998 (1997 – HK\$135,252,000) (see Notes 11.b and 11.d);
- (ii) A floating charge on bank balances and accounts receivable of Nanhai Xingye, with an aggregated net book value of approximately HK\$230,375,000 as at 31 December 1998 (1997 – HK\$163,058,000);
- (iii) An assignment of all interests, rights and benefits in Nanhai Xingye held by Hing Yip Holdings (Hong Kong) Limited and the PRC joint venture partner;
- (iv) An assignment of all interests rights and benefits of two sales agreements entered into by Nanhai Xingye which enable Nanhai Xingye to have a minimum annual sales of 15,500 metric tons of its products; and
- (v) A corporate guarantee provided by the Company.

The other banking facilities were secured by:

- (i) The Group's stocks held under import trust receipts bank loan arrangements (see Note 13.a); and
- (ii) A corporate guarantee provided by the Company.

**23. ULTIMATE HOLDING COMPANY**

The Company's Directors consider Holylake Resources Limited, a company incorporated in the British Virgin Islands, to be the ultimate holding company of the Company.



## 6. INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 1999

The following is extracted from the unaudited interim report of the Group for the six months ended 30 June 1999 together with the comparative figures for the corresponding period in 1998 as follows:

	<i>Notes</i>	<b>Six months ended 30 June</b>	
		<b>1999</b>	<b>1998</b>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	<i>1</i>	<u>267,952</u>	<u>264,281</u>
Profit before taxation		46,025	36,485
Taxation	<i>2</i>	<u>(5,698)</u>	<u>(5,240)</u>
Profit before minority interests		40,327	31,245
Minority interests		<u>(2,914)</u>	<u>(2,099)</u>
Profit attributable to shareholders		37,413	29,146
Interim dividend	<i>4</i>	<u>(3,379)</u>	<u>(5,632)</u>
Retained profit for the period		<u>34,034</u>	<u>23,514</u>
Earnings per share	<i>3</i>		
– Basic		<u>HK6.64 cent</u>	<u>HK5.18 cents</u>
– Diluted		<u>N/A</u>	<u>HK5.09 cents</u>

*Notes:***1. Turnover**

Turnover comprises (i) the net invoiced value (excluding value-added tax) of merchandise sold after allowances for returns and discounts, (ii) subcontracting fees, and (iii) gain on commodity dealing.

**2. Taxation**

The Company is exempted from taxation in Bermuda until March 2016.

Taxation in the consolidated profit and loss accounts comprised current Hong Kong profits tax provided at the rate of 16.0% (1998: 16.0%) on the estimated assessable profit arising in or derived from Hong Kong.

The Group's sales and subcontracting services in the People's Republic of China (the "PRC") are carried out by Nanhai Xingye Shaped Bronze & Aluminium Products Co., Ltd. ("Nanhai Xingye"), a subsidiary established and operated at Nanhai, Guangdong Province, the PRC. Both sales revenue and subcontracting fees are subject to value-added tax ("VAT") at a rate of 17% on the selling price/subcontracting fees. An input credit is available whereby input VAT previously paid on purchases can be used to offset the output VAT on sales revenue and subcontracting fees to determine the net VAT payable. The net VAT paid/payable by Nanhai Xingye was based on the amount confirmed by the Nanhai tax bureau on an annual basis which was substantially lower than the net VAT payable under the standard rate.

Nanhai Xingye is subject to PRC income taxes at a rate of 27% (24% state tax and 3% local tax). However, it is exempted from PRC state income tax and local income tax for two years starting from the first year of profitable operations, followed by a 50% reduction for the following three years. Nanhai Xingye was entitled to the 50% reduction on its PRC state income tax for the period ended 30 June 1998 and 1999. If the tax holiday of Nanhai Xingye did not exist, the Group's provision for PRC income tax (net of minority interests) for the period ended 30 June 1998 and 1999 would have been increased substantially.

### 3. Earnings per share

The calculation of basic earnings per share for the period ended 30 June 1999 was based on the unaudited consolidated profit attributable to shareholders of approximately HK\$37,413,000 and on the weighted average of 563,200,000 shares in issue during the period ended 30 June 1999. The calculation of basic earnings per share for the period ended 30 June 1998 was based on the combined profit attributable to shareholders of approximately HK\$29,146,000 and on the weighted average of 563,200,000 shares as if they had been in issue during the period ended 30 June 1998.

Diluted earnings per share is not applicable because it has anti-dilutive effect.

### 4. Interim dividend

The Directors have resolved to pay an interim dividend of HK0.6 cent (1998: HK1 cent per share) for the six months ended 30 June 1999 to shareholders whose names appear on the Register of Members of the Company on 15 October 1999. The dividend will be payable on 30 November 1999.

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own securities, subject to certain restrictions, on the Stock Exchange. At the Forthcoming SGM, an ordinary resolution will be proposed to grant the Directors a general mandate to purchase Shares, and Warrants, (the “Repurchase Mandate”), of up to 10 per cent. of the aggregate nominal amount of the share capital of the Company as enlarged by the Bonus Issue and outstanding Warrants in issue as at the date of the passing of the relevant resolution.

The Company is empowered by its memorandum of association and bye-laws to repurchase its own shares.

The Company is required by the Securities Buy Back Rules to send to the Shareholders an explanatory statement containing all the information reasonably necessary to enable them to make an informed decision on whether to vote for or against the resolution to approve the granting of the Repurchase Mandate to the Directors. Such information is provided below:

#### **1. SECURITIES BUY BACK RULES**

The Securities Buy Back Rules permit companies with a primary listing on the Stock Exchange to purchase their securities on the Stock Exchange subject to certain restrictions, the more important of which are summarized below:

##### **(a) Shareholder’s approval**

The Securities Buy Back Rules provide that all proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its members either by way of a general mandate or by specific approval of a particular transaction.

##### **(b) Consideration**

The Securities Buy Back Rules prohibit a company to purchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange in force from time to time.

##### **(c) Source of funds**

Repurchases of Shares must be financed out of funds legally available for such purpose in accordance with the memorandum of association and bye-laws of the Company and applicable laws of Hong Kong and Bermuda.

**(d) Trading restrictions**

The securities proposed to be repurchased by the Company must be fully paid up. A maximum of 10 per cent. of the fully paid-up Shares as enlarged by the Bonus Issue and 10 per cent. of the outstanding Warrants at the date of the passing of the relevant resolution approving the Repurchase Mandate may be repurchased on the Stock Exchange. A company may not issue or announce a proposed new issue of securities for a period of 30 days immediately following a repurchase of securities (other than an issue of securities pursuant to an exercise of warrants, share options or similar instruments requiring the company to issue securities which were outstanding prior to such repurchase of securities). In addition, repurchases of securities on the Stock Exchange in any calendar month are limited to a maximum of 25 per cent. of the trading volume of such securities on the Stock Exchange in the immediately preceding calendar month. The Securities Buy Back Rules also prohibit a company from repurchasing its securities on the Stock Exchange if the result of the repurchase would lead to the number of listed securities which are in the hands of the public falling below the relevant prescribed minimum percentage as required by the Stock Exchange.

**(e) Status of repurchased securities**

The Securities Buy Back Rules provide that listings of all repurchased securities are automatically cancelled and the relevant certificates for such securities must be cancelled and destroyed. Under the Companies Act, the shares of a company repurchased by the company will be treated as cancelled and the amount of company's issued capital will be diminished by the nominal value of those shares accordingly but the authorized share capital will not be reduced.

In accordance with the terms and conditions of the Warrants, all Warrants repurchased by the Company will be cancelled upon purchase and may not be re-issued or re-sold. The amount of outstanding Warrants shall be reduced accordingly.

The Company is not exempted from making an application for the listing of the new securities on the Stock Exchange following the repurchase of securities and the company may not issue or announce a proposed new issue of securities for a period of 30 days immediately following the repurchase of securities (save under circumstances referred to in sub-paragraph (d) above).

**(f) Suspension of repurchases**

The Securities Buy Back Rules prohibit any repurchase of securities on the Stock Exchange at any time after a price sensitive development has occurred, or has been the subject of a decision, until such time the price sensitive information has been publicly announced. In particular, a company may not purchase its securities on the Stock Exchange during the period of one month immediately preceding either the preliminary announcement of the company's annual results or the publication of the company's interim report unless the circumstances are exceptional. In addition, the Stock Exchange may prohibit a company from making repurchases of securities on the Stock Exchange if the Stock Exchange considers that the company has committed a breach of the Listing Rules.

**(g) Reporting requirements**

Under the Securities Buy Back Rules, repurchases of securities on the Stock Exchange must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day and shall confirm that those purchases which were made in accordance with the Listing Rules. In addition, a company's annual report and accounts are required to disclose details regarding repurchases of securities (on a monthly basis) made during the year, including the number of securities repurchased, the purchase price per security, the highest and lowest price paid and the aggregate prices paid. The Company must procure that any broker it appoints to effect the repurchases of securities discloses such information with respect to purchases made on behalf of the company as the Stock Exchange as request.

**(h) Connected parties**

The Securities Buy Back Rules prohibit a company from knowingly repurchasing its own securities on the Stock Exchange from "connected persons" that is, directors, chief executive or substantial shareholders of the company or any of its subsidiaries or their respective associates and a connected person must not knowingly sell his securities to the company.

**2. REASONS FOR REPURCHASES**

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have a general authority from Shareholders to repurchase its own securities in the market. Such repurchases may, depending on market conditions and funding arrangements of the Company at the time, lead to an enhancement of the net asset value of the Company and/or earnings per share of the Company and will only be made when the Directors believe that such repurchases will benefit the Company and its Shareholders. If the proposed Repurchase

Mandate were exercised in full, it could have a material adverse effect on the working capital of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company. In such circumstances, the Directors would not exercise the Repurchase Mandate to such an extent.

### **3. FUNDING OF REPURCHASES**

In repurchasing shares, the Company may only apply internal funds legally available for such purpose in accordance with its memorandum of association and bye-laws and the applicable laws of Bermuda.

### **4. DIRECTORS' DEALINGS**

None of the Directors nor to the best of their knowledge, having made all reasonable enquires, any of their associates (as defined in the Listing Rules) have any present intention to sell Shares and/or outstanding Warrants to the Company or its subsidiaries under the proposed Repurchase Mandate, if such is approved by the Shareholders.

### **5. EXERCISE OF THE REPURCHASE MANDATE**

Based on the 3,281,650,097 Shares in issue and HK\$3,332,611 outstanding Warrants in issue as at the Latest Practicable Date and on the basis that (i) the resolutions approving the Repurchase Mandate is passed at the forthcoming SGM; (ii) no further Shares are issued or repurchased between the Latest Practicable Date and the date of the Forthcoming SGM; (iii) the subscription rights attaching to the outstanding Warrants are not exercised prior to the Forthcoming SGM, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 328,165,009 Shares and HK\$333,261 outstanding Warrants. If the Consideration shares are issued upon Completion, the issued share capital of the Company will be enlarged to 3,606,650,097 Shares and the Company will be allowed under the Repurchase Mandate to repurchase a maximum of 360,665,009 Shares.

## 6. SHARE PRICES

The highest and lowest closing prices at which each of the Shares and outstanding Warrants have been traded on the Stock Exchange during the previous twelve months were as following:

	Shares		Warrants	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
<b>1999</b>				
March	0.093	0.08	–	–
April	0.093	0.082	–	–
May	0.108	0.083	–	–
June	0.12	0.081	–	–
July	0.117	0.09	–	–
August	0.108	0.083	–	–
September	0.187	0.1	–	–
October	0.157	0.1	0.255	0.208
November	0.135	0.085	0.24	0.074
December	0.135	0.09	0.176	0.081
<b>2000</b>				
January	0.36	0.121	0.6	0.137
February	0.83	0.315	1.55	0.61

## 7. GENERAL

The Directors have undertaken to the Stock Exchange, so far as the same may be applicable, that they will exercise the powers of the Company to repurchase its own securities pursuant to the proposed Repurchase Mandate in accordance with the Listing Rules and the applicable laws of Bermuda.

If as a result of a share repurchase, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 32 of the Hong Kong Code on Takeovers and Mergers ("Takeovers Code"). Accordingly, a Shareholder or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interests, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Takeovers Code in the event that the Directors exercise the power to purchase the shares pursuant to the Repurchase Mandate.

The Directors are not aware of any consequences which may arise under the Takeovers Code as a result of any purchases made under the proposed Repurchase Mandate.

As at the Latest Practicable Date, the aggregate beneficial interest of the Principal Shareholders in the Company is 40.96 per cent. In the event that the Company exercises the Repurchase Mandate in full, the aggregate beneficial interest of the Principal Shareholders in the Company will increase to approximately 45.52 per cent. On such basis, the Principal Shareholders would not be required under the Takeovers Code to make an offer for all the issued securities of the Company pursuant to such increase.

Neither the Company nor any of its subsidiaries has purchased any of the Company's securities in the six months preceding the date of this circular.

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





CHARTERED SURVEYORS, PROPERTY CONSULTANTS  
LAND, BUILDING, PLANT & MACHINERY VALUERS  
FINANCIAL AND INTANGIBLE ASSET VALUERS



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20 March 2000

The Directors

Ocean Grand Holdings Limited  
Room 2805, 28/F., Admiralty Centre,  
Tower 1,  
18 Harcourt Road,  
Hong Kong

Dear Sir,

In accordance with your instructions we have carried out a valuation of a 100 per cent. equity interest in the business of "www.search263.net" ("search263.net") for and on behalf of Ocean Grand Holdings Limited (the "Company") as of 1 January 2000.

We understand that this valuation is required to assist in the determination of consideration for an acquisition by the Company of an interest in the business of search263.net. This letter summarises the principal conclusions of our valuation, which is set out in a report dated 20 March 2000.

Our valuation has been carried out on a market value basis. Market value is defined as *the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably; prudently and without compulsion.*

The business of search263.net is wholly owned by Linefan Info Technology Company ("Beijing Hangfan"). Beijing Hangfan is a 70% owned subsidiary of Beijing Linefan Technology Company ("Linefan"), with 20% being owned by Beijing Wellpay Software Technology Limited ("Wellpay") and the remaining 10% being owned by Beijing Jingxun Public Info. Tech. Limited. Linefan also owns 72.2% of Wellpay. Beijing Hangfan, Wellpay and Linefan (together the "Linefan Group") are PRC private limited companies.

The business of search263.net is principally the provision of a search engine for 263.net, otherwise better known as "Capital-Online". Beijing Hangfan is engaged as an Internet contents provider in the PRC dealing with Internet related consultancy, Internet website design and productions. Beijing Hangfan is also engaged in the provision of Internet solutions

services, information technology products and services and the sale of telecommunication products. As advised by the Linefan Group, all online information and services of Beijing Hangfan would be distributed through the “search263.net” platform.

The business of search263.net will continue to develop Internet related services through its technology know-how and experience in search engines and software development. These services include e-commerce platforms for businesses and customers, search engine services and advertisements for retailers.

As part of our analysis, we have been furnished with the business development plan prepared by the Company and the Linefan Group, relevant documents and operational information regarding the Linefan Group. We have also conducted personal interviews with relevant senior staff of the Linefan Group. We have conducted a search through various sources to verify the reasonableness and fairness of information provided and we believe that such information is reasonable.

The valuation of an interest in a business enterprise or in a particular project requires consideration of all relevant factors affecting the operation of the business and its ability to generate future investment returns. Factors considered in the valuation included, but were not limited to, the following:

- the nature of the business and the historical performance of an enterprise;
- the financial condition of the business and the economic outlook in general;
- the operational contracts and agreements in relation to the business;
- the potential of the business and industrial outlook;
- comparative advantages and disadvantages of the business and industry;
- past and projected operating results; and
- the financial and business risk of an enterprise or a particular project including its capital structure, the continuity of income and the project future results.

The total market value for the business of search263.net was developed through the application of the income approach technique known as the discounted cash flow method. Under this method, value depends on the present worth of future economic benefits to be derived from e-commerce transactions, membership fee, the project advertising income, etc. Indications of value have been developed by discounting projected future net cash flows up to year 2004 and a terminal value to their present worth at discount rates which in our opinion are appropriate for the risks of the business. *Net cash flows are derived from the operating revenue*

less operating expenses and taxes, having considered relevant capital expenditures for future development. The terminal value is based on potential long term growth in the Internet industry and is stated as a multiple of estimated earnings in year 2004.

In determining the value of the business of search263.net, we have made the following key assumptions:

- In order to realise the growth potential of the business of search263.net and maintain a competitive edge, additional manpower, equipment and facilities are necessary to be employed. For the valuation exercise, we assume that all facilities and systems are expected to be working properly and sufficient for future expansion.
- We have assumed that there will no material change in the existing political, legal, technological, fiscal or economic condition may adversely affect the business of search263.net.
- We have assumed the accuracy of such information as provided to us by the Company and Linefan Group and relied to a considerable extent on such information in arriving at our opinion of value.

The conclusion of value is based generally on accepted valuation procedures and practices that rely substantially on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained. Further, while the assumptions and consideration of such matters are considered by us to be reasonable, they are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Company, the Linefan Group and Sallmanns.

In determining the discount rate of 32 per cent. for the operations adopted in the valuation, we have taken into account a number of factors including the current market information and the underlying risk inherent in the business, such as uncertainty risk, liquidity risk, exchange risk. etc.

Based on the investigation and analysis outlined in this letter, it is our opinion that as of 1 January 2000, the aggregate market value of a 100 per cent. equity interest in the business of search263.net is reasonably stated by the amount of Rmb 1,231 MILLION (RENMINBI ONE THOUSAND TWO HUNDRED THIRTY-ONE MILLION ONLY).

Yours faithfully,  
For and on behalf of  
**SALLMANNS (FAR EAST) LIMITED**  
**Brett A. Shadbolt**  
ASA AHKIV MIPMV SCV  
*Managing Director*

\* *Note:* Brett A. Shadbolt has over 12 years experience in the valuation of businesses in Hong Kong, the PRC and the Asia Pacific Region.



**TANG LEUNG & PARTNERS**  
*Certified Public Accountants*

8B, Wing Yee Commercial Building,  
No.3-7 Wing Kut Street,  
Central, Hong Kong

Fax: 852-2384-2022  
Tel.: 852-2573-2296

20 March 2000

The Directors  
Ocean Grand Holdings Limited  
Rm. 2805, 28/F  
Admiralty Centre, Tower 1  
Harcourt Road  
Hong Kong

Dear Sirs,

We set out below our report on the financial information relating to Beijing Linefan Technology Company ("Linefan") and its subsidiaries (hereinafter collectively known as "the Acquired Group") for inclusion in the circular to the shareholders of Ocean Grand Holdings Limited ("the Company") dated 20 March 2000 in connection with the proposed acquisition of 40% equity interest in Linefan by 南海興業銅鋁型材有限公司 (Nanhai Xingye Shaped Bronze & Aluminium Products Co., Ltd), a sino-foreign equity joint venture established under the laws of the PRC and which is 93.75% owned by the Company.

Linefan was established in the People's Republic of China (the "PRC") as a private limited company on 12 April 1999 and has been engaged in internet related services. On 26 April 1999, Linefan established Linefan Info Technology Company ("Beijing Hangfan") and owned 70% of its registered capital. On 5 November 1999, Linefan acquired 72.2% equity interest of Beijing Wellpay Software Technology Limited ("Wellpay") which owned 20% of Beijing Hangfan's registered capital and ultimately, Linefan's effective equity holding in Beijing Hangfan caused to be 84.44%. Both subsidiaries were established in the PRC and engaged:

- themselves as internet contents providers in the PRC with services including internet related consultancy, internet website design and production; and
- in the provision of internet solutions services, information technology products and services and the sale of telecommunication products.

Particulars of the subsidiaries are set out in Section 5 below.

No audited financial statements have been prepared for all the companies comprising the Acquired Group since their respective dates of establishment.

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## **APPENDIX IV ACCOUNTANTS' REPORT OF THE LINEFAN GROUP**

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We have examined the unaudited management accounts of all the companies comprising the Acquired Group for the period from their respective dates of establishment to 31 January 2000. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The summary of the consolidated results of the Acquired Group for the period from 12 April 1999 (date of establishment of Linefan) to 31 January 2000 (the "Relevant Period") and the consolidated net assets of the Acquired Group as at 31 January 2000 have been prepared based on the unaudited management accounts of the companies comprising the Acquired Group, after making such adjustments as we considered appropriate, and on the basis set out in Section 1 below.

The directors of the respective companies comprising the Acquired Group are responsible for preparing each of their management accounts which give a true and fair view. The directors of Linefan are also responsible for preparing the summary of consolidated results of the Acquired Group for the Relevant Period and of the consolidated net assets of the Acquired Group as at 31 January 2000. In preparing these management accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion on the summary of consolidated results of the Acquired Group and the consolidated net assets of the Acquired Group.

In our opinion, the financial summaries, together with the notes thereon, for the purpose of this report, give a true and fair view, in all material respects, of the consolidated results of the Acquired Group for the Relevant Period and of the consolidated net assets of the Acquired Group as at 31 January 2000.

### **1. BASIS OF PREPARATION**

The summary of the consolidated results of the Acquired Group for the Relevant Period has been prepared as if the current group structure of the Acquired Group had been in existence and remained the same throughout the Relevant Period.

Results of Wellpay were included in the consolidated results of the Acquired Group since 5 November 1999 for the reasons as explained in section 5 hereto. The summary of the consolidated net assets of the Acquired Group as at 31 January 2000 has been prepared as if the current group structure of the Acquired Group had been in existence as at that date. All significant intra-group transactions and balances have been eliminated on consolidation. Minority interests represent the interests of outside equity holders in the results and net assets of the subsidiaries and are recognised up to the amounts of capital attributable to minority equity holders.

**2. PRINCIPAL ACCOUNTING POLICIES**

The principal accounting policies adopted in the preparation of the financial information set out in this report, which conform with accounting principles generally accepted in Hong Kong, are as follows:

**(a) Turnover and revenue recognition**

Turnover represents service income on internet related services. Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Acquired Group. Service income is recognised in accordance with the terms of the underlying contracts and when the underlying services are rendered.

**(b) Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation. Depreciation is provided so as to write off the cost of each asset over its estimated useful life on a straight-line basis. The estimated useful lives are as follows:

Furniture, fixtures and office equipment	5 years
Computer equipment and systems	5 years

**(c) Subsidiary**

A subsidiary is a company in which Linefan, directly or indirectly, controls more than half of its voting power or registered capital, or controls the composition of its board of directors.

**(d) Foreign currencies***i. Translation of foreign currencies at individual company level*

Linefan and its subsidiaries adopt the Renminbi Yuan ("RMB") as their book-keeping base currency.

Foreign currency transactions during the year are translated into the book-keeping base currency at the exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into the book-keeping base currency at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

## APPENDIX IV ACCOUNTANTS' REPORT OF THE LINEFAN GROUP

### ii. Translation of foreign currencies into Hong Kong dollars ("HK\$")

For the purpose of this report, the assets and liabilities and items of income and expense in the accounts of Linefan and its subsidiaries prepared in RMB are translated into HK\$ at the exchange rates of HK\$1=RMB1.1.

### (e) Capital reserve

The excess of the group's share of the fair value of the separable net assets of subsidiaries acquired over the cost of investment in these companies is credited to consolidation reserve.

## 3. CONSOLIDATED RESULTS

A summary of the consolidated results of the Acquired Group for the Relevant Period prepared on the basis set out in Section 1 is set out below:

		For the Relevant Period	
		Original currency	HK\$ equivalent
	Note	(RMB)	
Turnover	(a)	541,890	492,627
Cost of services rendered		<u>(1,619,604)</u>	<u>(1,472,367)</u>
Gross loss		(1,077,714)	(979,740)
Other net income		6,472	5,884
General and administrative expenses		<u>(790,986)</u>	<u>(719,078)</u>
Loss before taxation	(b)	(1,862,228)	(1,692,934)
Taxation	(c)	-	-
Minority interests		<u>232,877</u>	<u>211,706</u>
Loss attributable to equity holders		<u><u>(1,629,351)</u></u>	<u><u>(1,481,228)</u></u>
Dividend	(d)	<u><u>-</u></u>	<u><u>-</u></u>

## APPENDIX IV ACCOUNTANTS' REPORT OF THE LINEFAN GROUP

Notes:

**(a) Turnover and revenue**

Analysis of turnover and revenue was as follows:

	For the Relevant Period	
	Original currency (RMB)	HK\$ equivalent
Service income	<u>541,890</u>	<u>492,627</u>

**(b) Loss before taxation**

Loss before taxation is arrived at after charging the following:

	Original currency	HK\$ equivalent
	(RMB)	
Auditors' remuneration	-	-
Directors' remuneration		
- Fees	-	-
- Other emoluments	141,800	128,909
Depreciation	254,518	231,380
Operating lease rentals in respect of rented premises	<u>267,640</u>	<u>243,309</u>

**(c) Taxation**

According to the prevailing rules of PRC income tax, the companies comprises the Acquired Group are exempted from PRC income tax for three years commencing from its date of establishment and thereafter is fixed at 7.5% from the fourth to sixth years.

There was no material unprovided deferred taxation during the Relevant Period.

**(d) Dividend**

No dividend has been declared or paid during the Relevant Period.

**(e) Pension scheme**

There was no pension scheme maintained during the Relevant Period.



## APPENDIX IV ACCOUNTANTS' REPORT OF THE LINEFAN GROUP

### 4. CONSOLIDATED NET ASSETS

A summary of the consolidated net assets of the Acquired Group as at 31 January 2000 is set out below:

	<i>Note</i>	<b>Original currency (RMB)</b>	<b>HK\$ equivalent</b>
FIXED ASSETS	(a)	2,832,442	2,574,947
<b>CURRENT ASSETS</b>			
Accounts receivables, other receivables and prepayments		107,872	98,065
Cash and bank balances		2,947,290	2,679,355
		3,055,162	2,777,420
<b>CURRENT LIABILITIES</b>			
Other payables and accrued charges		50,286	45,715
NET CURRENT ASSETS		3,004,876	2,731,705
Less:			
LOANS FROM EQUITY HOLDERS	(b)	(2,494,440)	(2,267,673)
NET ASSETS		3,342,878	3,038,979

*Notes:*

**(a) Fixed assets**

	<b>Cost</b>		<b>Accumulated depreciation</b>		<b>Net book value</b>	
	<b>Original currency (RMB)</b>	<b>HK\$ equivalent</b>	<b>Original currency (RMB)</b>	<b>HK\$ equivalent</b>	<b>Original currency (RMB)</b>	<b>HK\$ equivalent</b>
Furniture, fixtures and office equipment	506,860	460,782	41,899	38,090	464,961	422,692
Computer equipment and systems	2,580,100	2,345,545	212,619	193,290	2,367,481	2,152,255
	3,086,960	2,806,327	254,518	231,380	2,832,442	2,574,947

**(b) Loans from equity holders**

The loans from equity holders are unsecured, interest free and are repayable over five years.

## APPENDIX IV ACCOUNTANTS' REPORT OF THE LINEFAN GROUP

(c) Consolidation reserve

	Original currency (RMB)	HK\$ equivalent
Consolidation reserve	<u>910,506</u>	<u>827,733</u>

(d) Commitments

As at 31 January 2000, the Acquired Group had no significant commitments.

(e) Contingent liabilities

As at 31 January 2000, the Acquired Group had no significant contingent liabilities.

### 5. SUBSIDIARIES

As at the date of this report, particulars of the subsidiaries held by Linefan, all of which are private companies established in the PRC as private limited companies, are set out below:

Name	Date/place of establishment	Date of commencement of business	Equity capital	Attributable equity interest
Beijing Hangfan	26 April 1999 PRC	26 April 1999	HK\$909,091 (RMB1,000,000)	84.44%
Wellpay	2 May 1995 PRC	5 November 1999	HK\$454,545 (RMB500,000)	72.2%

Beijing Hangfan principal asset is to own the rights to a search engine technology and operates such technology under its own domain names including search263.net, search263.com, search.263.net, 263search.net, 263search.com and etc.

Pursuant to the valuation report prepared by Sallmanns (Far East) Ltd, a firm of independent surveyors, the business of search263.net was value at RMB1,231 million as at 1 January 2000 on a market value basis.

Wellpay was previously known as Beijing Coolmail Info Technology Limited ("Coolmail") and carried on the business of operating a café and development of software ("non-internet business"). Pursuant to a capital verification and register amendment report dated 5 November 1999, Wellpay changed its name to its current name and Linefan acquired 72.2% equity interest of Wellpay. By a resolution passed on 4 November 1999, Coolmail discontinues its non-internet business and the trading loss of Coolmail for the period from the date of its establishment to 4 November 1999 was netted off against its loan from equity holders. This resulted in the trading

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**APPENDIX IV ACCOUNTANTS' REPORT OF THE LINEFAN GROUP**

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results of Coolmail not being continued into Wellpay. Consequently, the consolidated results of the Acquired Group only include the results of Wellpay for the period from 5 November 1999 to 31 January 2000.

**6. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared for any companies comprising the Acquired Group in respect of any period subsequent to 31 January 2000.

Yours faithfully,  
**Tang Leung & Partners**  
*Certified Public Accountants*

\* *For identification purposes only*

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

## 1. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors in equity or debt securities of the Company or its associated corporations within the meaning of the SDI Ordinance which are required to be notified pursuant to Section 28 of the SDI Ordinance (including interests which any such Directors are taken or deemed to have under Section 31 of Part 1 of the Schedule to the SDI Ordinance) or which are required to be entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance or to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Companies, were as follows:

### Share capital

Name of directors	Number of Shares held		
	Personal interests	Corporate interests	Total
Yip Kim Po	216,357,143	1,127,946,381 <i>(Note 1)</i>	1,344,303,524
Tang Hin Lun	10,000,000	–	10,000,000
Yip Wan Fung	119,988,571	–	119,988,571
Wong Yat Fai	5,000,000	–	5,000,000
Kwan Yan	3,000,000	–	3,000,000

*Note:* As at the Latest Practicable Date, Holylake Resources Limited (“Holylake”) held 817,114,286 Shares and Grecian Resources Limited (“Grecian”) held 310,832,095 Shares. Since Mr. Yip Kim Po owned 76% of the issued share capital of each of Holylake and Grecian, the Shares of the Company held by Holylake and Grecian were deemed to be the corporate interests of Mr. Yip Kim Po by virtue of Practice Note 5 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

**The Warrants**

Name of directors	Number of Warrants held		Total
	Personal interests	Corporate interests	
Yip Kim Po	3,700,000	–	3,700,000
Yip Wan Fung	144,000	–	144,000

**Share Options**

The Directors had personal interests in the Share Options as follows:

Name of Director	Date of Grant	Exercise period	Exercise price	Number of the Share issuable under the Share Option
Choy Tak Ho	27 March 1998	27 March 1998, 30 September 2007	0.12	5,000,000

Save as disclosed in the paragraphs above, as at the Latest Practicable Date, none of the Directors or their associates (as defined in the Listing Rules) had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations which are required to be notified to the Company and the Stock Exchange pursuant to Section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under Section 31 of 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, pursuant to be Model Code for Securities Transactions by the Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

None of the Director nor expert named under the section headed “Expert” has any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries;

No Director is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the date of this prospectus and which is significant in relation to the business of the Group.

## 2. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of the members kept by the Company pursuant to section 16 of the SDI Ordinance and so far as is known to, or can be ascertained after reasonable enquiries by the Directors, the following persons were directly or indirectly interested in 10 per cent. or more of the issued share capital of the Company:

Name of shareholders	Number of Shares held	Remarks	Percentage of shareholding (%)
Holylake Resources Limited	817,114,286	i	24.90
Grecian Resources Limited	310,832,095	ii	9.47

*Remarks:*

- (i) The interests of Holylake Resources Limited have been disclosed as Yip Kim Po's interests in the Company share capital has been set out under section 1 above.
- (ii) The interests of Grecian Resources Limited have been disclosed as Yip Kim Po's interests in the Company share capital has been set out under section 1 above.

Save as disclosed herein, the Directors are not aware of any person, other than the Directors and the companies controlled by them as disclosed above, who were directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any of its subsidiaries as at the Latest Practicable Date.

## 3. SERVICE CONTRACTS

No Director has entered or is proposing to enter into a service contract with the Company or any of its subsidiaries (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

## 4. SECRETARY

The secretary of the Company is Mr. Lo Hang Fong who is a solicitor who has been in practice for more than 10 years and is admitted to the Supreme Court of Hong Kong, the Supreme Court of Singapore and the Supreme Court of England and who is also a partner of Messrs. Stevenson Wong & Lai in Hong Kong.

## 5. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

## 6. EXPERT

Tang Leung & Partners and Sallmanns (Far East) Limited have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of the letter(s), report or certificate(s) (as the case may be) and reference to their respective name(s) in the form and context in which they appear.

The following set out the qualifications of the respective experts who have given opinion or advice which are contained in this circular:

<b>Name</b>	<b>Qualification</b>
Tang Leung & Partners	Certified Public Accountants
Sallmanns (Far East) Limited	Property Valuer

## 7. MATERIAL CONTRACTS

During the two years immediately preceding the date of this circular, the following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Group and are or may be material:

- (i) the sale and purchase agreement entered into by the Company, Ms. Yip Wan Fung (an executive director of the Company), Kenlap (Holdings) Limited and Mr. Yip Kim Po (the chairman of the Company as guarantor) on 21 July 1999 in respect of the Company's purchase of the entire issued share capital of Kenlap P.G.C. Manufacturer Company Limited ("Kenlap P.G.C.").

Save for the material contracts disclosed above, the Group has not entered into any contracts, not being contracts entered into in the ordinary course of business, which are or may be material, within the two years preceding the date of this circular.

**8. MISCELLANEOUS**

- (a) Save as disclosed herein, no member of the Group has acquired or agreed to acquire any business which will make a material contribution to the accounts of the Company since the last published audited accounts.
- (b) Save as disclosed herein, there is no contract or arrangement entered into by any member of the Group, subsisting at the date hereof in which any respective directors of the Company is materially interested and which is significant in relation to the *business of the Group respectively*.
- (c) There is no change in the remuneration payable to and benefits in kind receivable by the Directors as a consequence of the Acquisition.
- (d) The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 1998, the date to which the latest published audited accounts of the Group were made up.
- (e) None of Tang Leung & Partners and Sallmanns (Far East) Limited has any shareholding in the Company or any of its subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in the Company or in any of its subsidiaries.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the office of Stevenson, Wong & Lai at Rooms 2002-2009, 20th Floor, Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong up to and including 30 March 2000 (Thursday) and at the forthcoming SGM:

- the Memorandum of Association and Bye-laws of the Company;
- the Agreements;
- the material contracts referred to under the section headed "Material Contracts" in this Appendix;
- the valuation report referred to under Appendix III;
- the accountant's report referred to under Appendix I and Appendix IV;



- the audited financial statements of the Company for the year ended 31 December 1997 and 31 December 1998;
- the discloseable, connected and share transaction circular of the Company dated 21 August 1999 in respect of the Company's acquisition of the entire issued share capital of Kenlap PGC; and
- the letters of consent from Tang Leung & Partners and Sallmanns referred to under the section headed "Expert" above.

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## NOTICE OF SPECIAL GENERAL MEETING

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### OCEAN GRAND HOLDINGS LIMITED

(海域集團有限公司\*)

*(incorporated in Bermuda with limited liability)*

NOTICE IS HEREBY GIVEN that a Special General Meeting of Ocean Grand Holdings Limited ("Company") will be held at Room 2805, 28th Floor, Admiralty Centre, Tower 1, 18 Harcourt Road, Hong Kong on Wednesday, 5 April 2000 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

#### ORDINARY RESOLUTIONS

- "1. THAT the agreement entered into between Hong Ying Bin (as vendor) and 南海興業銅鋁型材有限公司 (\*Nanhai Xingye Shaped Bronze & Aluminum Products Co., Ltd.), a sino-foreign equity joint venture established under the laws of the PRC and which is 93.75% owned by the Company (as purchaser) on 15 February 2000 in relation to the latter's acquisition ("Acquisition") of 40% equity interest of 北京藍帆科技有限公司 (\*Beijing Linefan Technology Company) ("Linefan") and as supplemented by two supplemental agreements entered into between them dated 15 February 2000 and 17 February 2000 ("Agreements") (copies of the Agreements of which are tabled at this meeting marked "A" and initialed by the chairman of this meeting for identification purposes only), be and are hereby approved, and the directors of the Company ("Directors") be and are hereby authorized to do all such acts including the Company's issue of 325 million ordinary shares ("Consideration Shares") of HK\$0.10 each of the Company to satisfy part of the consideration for the Acquisition in accordance with the terms of the Agreements, execute all such documents and agree all such amendments which they in their absolute discretion deem fit to give effect to the transactions contemplated in the Agreements."
- "2. THAT:
- (a) subject to paragraph (c) of this Resolution, the exercise by the Directors during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and otherwise deal with additional ordinary shares ("Shares") of HK\$0.10 each in the share capital of the Company or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares, and to make or grant offers, agreements or options which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved;

\* *For identification only*

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## NOTICE OF SPECIAL GENERAL MEETING

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- (b) the approval in paragraph (a) of this Resolution shall authorize the Directors during the Relevant Period to make or grant offers, agreements or options which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in this Resolution, otherwise than pursuant to:
  - (i) a rights issue (as defined below); or
  - (ii) the exercise of rights of subscription or conversion attaching to any warrants or any securities which are convertible into Shares issued by the Company prior to the date of the passing of this Resolution; or
  - (iii) the exercise of any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of Shares or rights to acquire Shares of the Company; or
  - (iv) any scrip dividend or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the By-laws of the Company;

shall not exceed 20 per cent. of the aggregate nominal amount of the issued share capital of the Company at the close of business on the date of the passing of this Resolution, and the said approval shall be limited accordingly;

- (d) the general mandate to issue, allot and otherwise deal with Shares granted to the Directors by a resolution of the shareholders of the Company in general meeting passed on 25 November 1999 to the extent not already exercised be and is hereby revoked; and
- (e) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;

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## NOTICE OF SPECIAL GENERAL MEETING

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- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; and

“rights issue” means the allotment, issue or grant of Shares pursuant to an offer of shares open for a period fixed by the Directors to the holders of Shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory applicable to the Company).”

“3. THAT:

- (a) conditional upon the passing of the resolution number 2 above and subject to paragraph (b) of this Resolution, the exercise by the Directors during the Relevant Period (as defined below) of all powers of the Company to repurchase shares (“Shares”) of HK\$0.10 each in the capital of the Company, the warrants issued pursuant to a resolution of the shareholders of the Company passed on 15 October 1999 (the “Warrants”) on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other exchange on which the securities of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose (“Recognized Stock Exchange”), subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or those of any other Recognized Stock Exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the Shares and the Warrants repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed (i) 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as to the close of business on the date of the passing of this Resolution AND as enlarged by the Consideration Shares, where applicable, (ii) 10 per cent. of the amount of the Warrants outstanding as at the close of business on the date of the passing of this Resolution, and the said approval shall be limited accordingly; and

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## NOTICE OF SPECIAL GENERAL MEETING

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(c) the repurchase mandate granted to the Directors by a resolution of the shareholders of the Company in general meeting passed on 25 November 1999 to the extent not exercised be and is hereby revoked; and

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the bye-laws of the Company or any applicable laws to be held; and
- (iii) the date on which the authority set out in this Resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.”

“4. THAT subject to the passing of the Resolutions numbered 2 and 3 set out in the notice convening this meeting, the general mandate granted to the Directors and for the time being in force to exercise the powers of the Company to allot, issue and otherwise deal with Shares pursuant to Resolution numbered 2 set out in the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal amount of share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate, an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution numbered 3 (as set out in the notice convening this meeting) provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the close of business on the date of the passing of this Resolution as enlarged by the Consideration Shares, where applicable.”

By Order of the Board  
**OCEAN GRAND HOLDINGS LIMITED**  
**YIP Kim Po**  
*Chairman*

Hong Kong, 20 March 2000

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## NOTICE OF SPECIAL GENERAL MEETING

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*Head office and principal place of business*

*in Hong Kong:*

Room 2805, 28th Floor  
Admiralty Centre, Tower 1  
18 Harcourt Road  
Hong Kong

**Notes:**

- (1) A member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies to attend and vote in his stead. A proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed herewith.
- (2) To be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Hong Kong branch share registrars of the Company, Tengis Limited, at Room 1601, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 48 hours before the time appointed for holding the meeting.
- (3) Completion and return of the form of proxy will not preclude members from attending and voting at the Special General Meeting.
- (4) In relation to proposed resolutions nos. 2 and 4 above, approval is being sought from the shareholders for the grant to the Directors of a general mandate to authorize the allotment and issue of its securities under the Listing Rules. The Directors have no immediate plans to issue any new securities of the Company other than the securities which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme which may be approved by shareholders or shares which may be issued upon the exercise of the subscription rights attaching to the Warrants.
- (5) In relation to proposed resolution no. 3 above, the Directors wish to state that they will exercise the powers conferred thereby to purchase securities of the Company in circumstances which they deem appropriate for the benefit of the shareholders. An explanatory statement containing the information necessary to enable the shareholders to make an informed decision to vote on the proposed resolution as required by the Listing Rules is set out in Appendix II of this circular.