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

**If you have sold or transferred** all your shares in Chevalier Construction Holdings Limited, you should at once hand this document to the purchaser or the transferee, or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or transferee.

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**PROPOSED PRIVATISATION OF  
CHEVALIER CONSTRUCTION HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**BY**

**CHEVALIER INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**BY WAY OF A SCHEME OF ARRANGEMENT**

**(UNDER SECTION 99 OF THE COMPANIES ACT 1981 OF BERMUDA (AS AMENDED))**

**AT THE CANCELLATION PRICE OF HK\$0.25 PER SCHEME SHARE**

**Financial adviser to Chevalier International Holdings Limited**



**Independent financial adviser to the independent board committee of  
Chevalier Construction Holdings Limited**



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A letter from Quam Capital Limited containing its advice to the CCHL Independent Board Committee (as defined herein) in relation to the Proposal (as defined herein) is set out on pages 15 to 26 of this document.

A letter from the CCHL Independent Board Committee containing its recommendations to the CCHL Independent Shareholders (as defined herein) in relation to the Proposal is set out on page 14 of this document.

Notices convening the Court Meeting (as defined herein) and the Special General Meeting (as defined herein) to be held on 16th January, 2004 are set out on pages 91 to 94 of this document. Whether or not you are able to attend the Meetings (as defined herein) in person, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the Special General Meeting, in accordance with the instructions printed thereon and to lodge them with the branch share registrars of Chevalier Construction Holdings Limited in Hong Kong, namely Standard Registrars Limited, situate at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any case not later than 9:15 a.m. on 14th January, 2004 for the pink form of proxy and 9:30 a.m. on 14th January, 2004 for the white form of proxy. In the case of the pink form of proxy in respect of the Court Meeting, they may be handed to the chairman of the Court Meeting at the Court Meeting.

22nd December, 2003

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## DEFINITIONS

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*In this document, the following expressions have the meanings set out below unless the context requires otherwise.*

“Announcement”	an announcement dated 31st October, 2003 jointly made by CIHL and CCHL in relation to the Proposal
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Authorisation(s)”	all necessary authorisations, registrations, filing, rulings, consents, permissions and approvals in connection with the Proposal
“Cancellation Price”	HK\$0.25 in cash per CCHL Share
“CCHK”	Chevalier Construction (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and a subsidiary of CCHL
“CCHL”	CHEVALIER CONSTRUCTION HOLDINGS LIMITED, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“CCHL Board”	board of CCHL Directors
“CCHL Director(s)”	director(s) of CCHL
“CCHL Group”	CCHL and its subsidiaries
“CCHL Independent Shareholder(s)”	CCHL Shareholders (other than CIHL, Firstland, CIHL Directors and any of their respective associates and concert parties)
“CCHL Share(s) or “Share(s)”	share(s) of HK\$0.10 each in the capital of CCHL
“CCHL Shareholder(s)”	holder(s) of CCHL Shares
“CIHL”	CHEVALIER INTERNATIONAL HOLDINGS LIMITED, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“CIHL Board”	board of CIHL Directors
“CIHL Director(s)”	director(s) of CIHL
“CIHL Group”	CIHL and its subsidiaries
“CCHL Independent Board Committee”	independent committee of the CCHL Board, comprising Sun Kai Dah, George and Du Shue Chu, both of whom are independent non-executive directors of CCHL

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## DEFINITIONS

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“CIHL Independent Shareholder(s)”	holder(s) of CIHL Share(s) (other than CIHL Directors and their respective associates and concert parties)
“CIHL Shareholder(s)”	holder(s) of CIHL Shares
“CHK”	Chevalier (HK) Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CIHL
“CiTL”	Chevalier iTech Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Companies Act”	the Companies Act 1981 of Bermuda (as amended)
“Court Meeting”	a meeting of the CCHL Independent Shareholders to be convened at the direction of the Supreme Court at which the Scheme will be voted upon, notice of which is set out on pages 91 to 92 of this document, or any adjournment thereof
“Dr. Chow”	Chow Yei Ching, the chairman of both CIHL Board and CCHL Board
“Effective Date”	the date on which the Scheme, if approved, becomes effective in accordance with the Scheme, which is expected to be between 2:00 p.m. and 5:00 p.m. on Friday, 6th February 2004 (Bermuda time), equivalent to between 2:00 a.m. and 5:00 a.m. on Saturday, 7th February 2004 (Hong Kong time)
“Explanatory Statement”	the explanatory statement set out on pages 27 to 38 of this document and in compliance with Section 100 of the Companies Act
“Firstland”	Firstland Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of CHK
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Last Trading Day”	30th October, 2003, being the last trading day prior to the suspension of trading in the CIHL Shares and CCHL Shares pending the release of the Announcement
“Latest Practicable Date”	19th December, 2003, being the latest practicable date prior to the printing of this document for ascertaining certain information referred to in this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Meeting(s)”	the Court Meeting and the Special General Meeting or any of them, as the case may be
“Model Code”	Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules
“Mr. Kuok”	Kuok Hoi Sang, a CIHL Director and a CCHL Director
“Mr. Tam”	Tam Kwok Wing, a CIHL Director and a CCHL Director
“Quam”	Quam Capital Limited, the independent financial adviser to the CCHL Independent Board Committee, a deemed licensed corporation under the SFO licensed to conduct types 4, 6 and 9 of the regulated activities under the SFO
“Proposal”	the proposed privatisation of CCHL by CIHL by way of the Scheme
“Record Date”	Thursday, 5th February, 2004, or such other date as shall have been announced to CCHL Shareholders for determining entitlements under the Scheme
“Relevant Authorities”	appropriate government and/or governmental bodies, regulatory bodies, courts or institutions
“Scheme”	the scheme of arrangement under section 99 of the Companies Act involving the cancellation and extinguishment of all the Scheme Shares
“Scheme Share(s)”	CCHL Share(s) held by the Scheme Shareholders
“Scheme Shareholder(s)”	holder(s) of the CCHL Share(s) other than CIHL and Firstland
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Somerley”	Somerley Limited, the financial adviser to CIHL, a licensed corporation under the SFO licensed to conduct types 1, 4, 6 and 9 of the regulated activities under the SFO
“Special General Meeting”	the special general meeting of CCHL, notice of which is set out on pages 93 to 94 of this document, or any adjournment thereof
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supreme Court”	the Supreme Court of Bermuda

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## DEFINITIONS

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“Takeovers Code”	The Code on Takeovers and Mergers issued by the Securities and Futures Commission
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent.

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## EXPECTED TIMETABLE

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*Hong Kong time 2004*

Latest time for lodging transfers of the CCHL Shares to  
qualify for attending and voting at the Court Meeting and  
the Special General Meeting ..... 4:30 p.m. on Tuesday, 13th January

Register closed for determination of entitlements of  
CCHL Independent Shareholders to attend and vote at the  
Court Meeting and CCHL Shareholders to attend and vote at  
the Special General Meeting ..... Wednesday, 14th January to  
Friday, 16th January  
(both days inclusive)

Latest time for lodging forms of proxy in respect of:

Court Meeting (*Note 1*) ..... 9:15 a.m. on Wednesday, 14th January

Special General Meeting (*Note 1*) ..... 9:30 a.m. on Wednesday, 14th January

Suspension of trading in the CCHL Shares ..... 9:30 a.m. on Friday, 16th January

Court Meeting ..... 9:15 a.m. on Friday, 16th January

Special General Meeting ..... 9:30 a.m. on Friday, 16th January

Press announcement of the results of the Special General Meeting  
in The Standard, Hong Kong Economic Journal and  
Hong Kong Economic Times ..... Monday, 19th January

Resumption of trading in the CCHL Shares ..... 9:30 a.m. on Monday, 19th January

Supreme Court hearing of petition to sanction the Scheme (*Note 2*) ..... Friday, 30th January

Latest time for dealing in the CCHL Shares ..... 4:00 p.m. on Monday, 2nd February

Latest time for lodging transfers of the CCHL Shares  
to qualify for entitlements under the Scheme ..... 4:30 p.m. on Thursday, 5th February

Record Date ..... Thursday, 5th February

Effective Date (*Note 3*) ..... Friday, 6th February

Press announcement on Effective Date and withdrawal of listing  
in The Standard, Hong Kong Economic Journal  
and Hong Kong Economic Times ..... Monday, 9th February

Withdrawal of the listing of the CCHL Shares on the  
Stock Exchange becomes effective (*Note 3*) ..... 9:30 a.m. on Monday, 9th February

Cheques for cash payment under the Scheme  
to be despatched on or before ..... Monday, 16th February

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## EXPECTED TIMETABLE

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**CCHL Shareholders should note that the above timetable is subject to change depending mainly on the availability of the Supreme Court to hear the proceedings in relation to the Scheme. Further announcement will be made in the event that there is any such change.**

*Notes:*

1. Forms of proxy should be lodged with the branch share registrar of CCHL in Hong Kong, namely Standard Registrars Limited, situate at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not later than the relevant times and dates stated above or, in the case of the pink form of proxy in respect of the Court Meeting, they may be handed to the chairman of the Court Meeting at the Court Meeting. Completion and return of a form of proxy for the Court Meeting or the Special General Meeting will not preclude the relevant CCHL Shareholder from attending the relevant Meetings and voting in person. In such event, the returned form of proxy will be deemed to have been revoked.
2. All references in this document to times and dates are references to Hong Kong times and dates, other than references to the expected date for the Supreme Court hearing of the petition to sanction the Scheme, which are to the relevant date in Bermuda. For the period from 27th October, 2003 to 3rd April, 2004, Bermuda time is twelve hours behind Hong Kong time.
3. The Scheme will become effective when it is sanctioned (with or without modification) by the Supreme Court and a copy of the Supreme Court order is delivered to the Registrar of Companies in Bermuda for registration and is registered. Registration is expected to take place between 2:00 p.m. and 5:00 p.m. on Friday, 6th February, 2004 (Bermuda time) (equivalent to between 2:00 a.m. and 5:00 a.m. on Saturday, 7th February, 2004 (Hong Kong time)). CCHL Independent Shareholders should note the conditions to the Proposal set out on pages 28 to 29 of this document. It is expected that the listing of the CCHL Shares on the Stock Exchange will be withdrawn on Monday, 9th February, 2004.



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## LETTER FROM THE CCHL BOARD

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### CHEVALIER CONSTRUCTION HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

*Executive directors*

CHOW Yei Ching (*Chairman*)  
KUOK Hoi Sang (*Vice chairman*)  
WONG Kie Ngok, Alexander  
TAM Kwok Wing

*Registered office*

Canon's Court,  
22 Victoria Street,  
Hamilton, HM12,  
Bermuda

*Independent non-executive directors*

SUN Kai Dah, George  
DU Shue Chu

*Principal place of business*

22nd Floor,  
Chevalier Commercial Centre,  
8 Wang Hoi Road,  
Kowloon Bay,  
Hong Kong

22nd December, 2003

*To CCHL Shareholders*

Dear Sir and Madam,

**PROPOSED PRIVATISATION OF  
CHEVALIER CONSTRUCTION HOLDINGS LIMITED  
BY CHEVALIER INTERNATIONAL HOLDINGS LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT  
(UNDER SECTION 99 OF THE COMPANIES ACT  
1981 OF BERMUDA (AS AMENDED))  
AT THE CANCELLATION PRICE OF HK\$0.25 PER SCHEME SHARE**

#### INTRODUCTION

On 31st October, 2003, CIHL, the controlling shareholder of CCHL requested CCHL Board to put forward a proposal to the CCHL Shareholders other than CIHL and Firstland regarding the proposed privatisation of CCHL by way of the Scheme involving the cancelling and extinguishing of all CCHL Shares not held by CIHL and Firstland.

Pursuant to Rule 2.4 of the Takeovers Code, the making of the Proposal is subject to CIHL Independent Shareholders' approval at the special general meeting of CIHL, which was duly convened and held at 10:00 a.m. on Friday, 5th December, 2003. The CIHL Independent Shareholders approved the Proposal at the aforesaid meeting.

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## LETTER FROM THE CCHL BOARD

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All the executive directors of CCHL, namely Dr. Chow, Mr. Kuok, Mr. Tam and Mr. Wong Kie Ngok, Alexander, who are also CIHL Directors are presumed to be acting in concert with CIHL and therefore are considered not independent to advise the CCHL Independent Shareholders as regards the Proposal. The CCHL Independent Board Committee comprising the two independent non-executive directors of CCHL, namely Mr. Sun Kai Dah, George and Mr. Du Shue Chu, has been established to advise the CCHL Independent Shareholders in respect of the Proposal. Quam has been appointed the independent financial adviser to advise the CCHL Independent Board Committee in respect of the Proposal.

The purpose of this document is to provide you with, among other things, further information in connection with the Proposal, the Scheme and the Explanatory Statement, the letter from CCHL Independent Board Committee containing its advice to the CCHL Independent Shareholders in respect of the Proposal, the letter from Quam containing its advice to the CCHL Independent Board Committee in respect of the Proposal, the notices of the Court Meeting and the Special General Meeting, and the relevant forms of proxy to be used at the Court Meeting and the Special General Meeting.

### SHAREHOLDING STRUCTURE

The table below sets out in detail the shareholding structure of CCHL as at the Latest Practicable Date and the Effective Date:

	<b>As at the Latest Practicable Date</b>		<b>As at the Effective Date</b>	
	<b>Number of CCHL Shares</b>	<b>(%)</b>	<b>Number of CCHL Shares</b>	<b>(%)</b>
CIHL	72,648,770	29.18	72,648,770	81.28
Firstland <sup>1</sup>	16,736,674	6.72	16,736,674	18.72
Dr. Chow and his concert parties <sup>2</sup>	61,036,489	24.51	–	–
Mr. Kuok and his concert parties <sup>2</sup>	1,326,437	0.53	–	–
Mr. Tam and his concert parties <sup>2</sup>	632,938	0.26	–	–
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Number of CCHL Shares held by				
CIHL and its concert parties	152,381,308	61.20	–	–
Public	<u>96,618,692</u>	<u>38.80</u>	<u>                    </u>	<u>                    </u>
	<u>249,000,000</u>	<u>100.00</u>	<u>89,385,444<sup>3</sup></u>	<u>100.00</u>

Notes:

1. *Firstland is a wholly-owned subsidiary of CHK, which is a wholly-owned subsidiary of CIHL.*
2. *Dr. Chow is the chairman of both CIHL and CCHL. He is also a CIHL Director and a CCHL Director. Mr. Kuok is a CIHL Director and a CCHL Director. Mr. Tam is a CIHL Director and a CCHL Director. CIHL Directors (together with their close relatives (which means director's spouse, de facto spouse, children, parents and siblings) are presumed to be parties acting in concert with CIHL).*
3. *The 159,614,556 CCHL Shares subject to the Proposal will be cancelled and extinguished upon the Scheme becoming effective. 89,385,444 CCHL Shares being the aggregate CCHL Shares owned by CIHL and Firstland will remain in issue immediately after the Scheme becoming effective.*

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## LETTER FROM THE CCHL BOARD

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Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and extinguished and CCHL will be wholly owned by CIHL. CCHL will apply to the Stock Exchange for the withdrawal of the listing of the CCHL Shares on the Stock Exchange immediately after the Scheme becoming effective.

There are no outstanding options, warrants or convertible securities in CCHL as at the Latest Practicable Date.

### SUMMARY OF THE PROPOSAL

It is proposed that, subject to the conditions to the Proposal being fulfilled or, where applicable, waived, the Proposal will be implemented by way of the Scheme, which will involve cancellation and extinguishment of all the Scheme Shares, involving a reduction of the authorised and issued share capital of CCHL under Section 46 of the Companies Act. The Scheme also provides that, in consideration of such cancellation, Scheme Shareholders will be entitled to receive HK\$0.25 in cash from CIHL for each Scheme Share held. The consideration to be received by the Scheme Shareholders under the Proposal is not subject to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

Based on the Cancellation Price, the Proposal valued the entire issued share capital of 249,000,000 CCHL Shares as at the Latest Practicable Date at approximately HK\$62.3 million. As at the Latest Practicable Date, 159,614,556 Scheme Shares were subject to the Proposal and the aggregate Cancellation Price payable by CIHL under the Proposal amounting to approximately HK\$39.9 million.

The Proposal will be financed by general banking facilities available to CIHL. Somerley is satisfied that sufficient financial resources are available to CIHL for implementation of the Proposal. It is not the intention of CIHL that the payment of interest or, repayment of the general banking facilities will depend, to any extent, on the business of CCHL.

The Proposal will become effective and binding on CCHL and all Scheme Shareholders provided that all the conditions to the Proposal are fulfilled or, where applicable, waived. Upon the Effective Date, the authorised and issued share capital of CCHL shall be reduced by cancelling and extinguishing all the Scheme Shares. All the conditions to the Proposal will have to be fulfilled or, as applicable, waived on or before 31st March, 2004 (or such other date as CIHL and CCHL may agree or as the Supreme Court may direct), otherwise the Proposal will lapse. An announcement will be made by CIHL and CCHL if the Proposal lapses.

Assuming that the Scheme becomes effective on Friday, 6th February, 2004 (Bermuda time), cheques for the Cancellation Price are expected to be despatched to the Scheme Shareholders on or before Monday, 16th February, 2004.

The Cancellation Price per Scheme Share, represents:

- (a) a premium of approximately 2.5% over the closing price of HK\$0.244 per CCHL Share as quoted on the Stock Exchange on the Latest Practicable Date;

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## LETTER FROM THE CCHL BOARD

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- (b) a premium of approximately 16.3% over the closing price of HK\$0.215 per CCHL Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a premium of approximately 16.3% over the average closing price of approximately HK\$0.215 per CCHL Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including the Last Trading Day;
- (d) a premium of approximately 23.8% over the average closing price of approximately HK\$0.202 per CCHL Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including the Last Trading Day;
- (e) a premium of approximately 37.4% over the average closing price of approximately HK\$0.182 per CCHL Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including the Last Trading Day;
- (f) a discount of approximately 18.6% to the audited consolidated net asset value per CCHL Share of HK\$0.307 as at 31st March, 2003;
- (g) a discount of approximately 21.1% to the unaudited condensed consolidated net asset value per CCHL Share of HK\$0.317 as at 30th September, 2003; and
- (h) a discount of approximately 21.1% to the unaudited pro forma adjusted net tangible asset value per CCHL Share as set out in Appendix I to this document.

Historical price information on the CCHL Shares is set out in Appendix II.

No dividends have been declared in the past five years. The CCHL Board has confirmed that no dividend will be declared in respect of the CCHL Shares prior to the Effective Date.

### **BACKGROUND TO, AND REASONS FOR, THE PROPOSAL**

CCHL Shares have been trading at a discount to their net asset value and the trading volume of the CCHL Shares has been thin. For the two years period up to and including the Latest Practicable Date, the CCHL Shares had been traded within the range of HK\$0.052 to HK\$0.247 per CCHL Share with an average closing price at approximately HK\$0.124 per CCHL Share. Such average closing price represented a discount of approximately 59.6% to the audited consolidated net asset value per CCHL Share of HK\$0.307 as at 31st March, 2003 and 60.9% discount to the unaudited condensed consolidated net asset value per CCHL Share of HK\$0.317 as at 30th September, 2003. The average daily trading volume of the CCHL Shares for the two years' period up to and including the Latest Practicable Date was 80,430 CCHL Shares. Such daily trading volume represented about 0.03% of the issued share capital of CCHL as at the Latest Practicable Date. Given the discount of the market price to the net asset value per CCHL Share and the low liquidity of the CCHL Shares as traded on the Stock Exchange, the CCHL Directors are of the opinion that it would be difficult for CCHL to raise additional funds for its business, should CCHL wish to, through the equity market. In fact, since the listing of the CCHL Shares on the Stock Exchange in January 1996, CCHL has not raised funds in the open market, save and except for a subscription

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## **LETTER FROM THE CCHL BOARD**

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agreement entered into with Wealthy Town Investments Limited, a company beneficially owned by one of the directors of a subsidiary of CCHL in 2000.

In addition, it has been difficult for CCHL, given CCHL's small net asset base, to obtain financing and banking facilities to fund its business development and to participate in sizeable construction projects. After successful implementation of the Proposal, CCHL will be wholly owned by CIHL which is in a position to give full financial support to CCHL in terms of future business development. Upon completion of the Proposal, CCHL will become part of the CIHL Group with a substantial asset base, CCHL will then be better equipped to tender for sizeable construction projects as the economy, particularly the property market, improves.

The Proposal would also result in the elimination of all connected transactions between CCHL and CIHL and in turn streamline the administrative, regulatory and compliance obligations of the CIHL Group.

Taking into account the above-mentioned factors, the CCHL Directors consider that the Proposal is in the interests of CCHL Shareholders.

### **INFORMATION RELATING TO THE CCHL GROUP AND FUTURE INTENTIONS OF CIHL ON CCHL GROUP**

Your attention is also drawn to the sections headed "Information relating to the CCHL Group" and "Future intentions of CIHL on CCHL Group" in the Explanatory Statement on pages 27 to 38 of this document.

### **MEETINGS AND ACTION TO BE TAKEN BY THE CCHL INDEPENDENT SHAREHOLDERS AND THE CCHL SHAREHOLDERS**

As you will see from the notices of Meetings on pages 91 to 94 of this document, the Court Meeting and the Special General Meeting have been convened to be held at 9:15 a.m. and 9:30 a.m. respectively on Friday, 16th January, 2004.

The Supreme Court has directed that the Court Meeting be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme, with or without modification. In so far as the statutory requirement for the sanction of the Scheme by the Supreme Court is concerned, a resolution for the approval of the Scheme will be deemed to have been passed if a majority in number representing three-fourths in value of the CCHL Shares held by the CCHL Independent Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme.

Under Rule 2.10 of the Takeovers Code, however, such a resolution will only be considered to have been passed if (i) the Scheme is approved by at least 75% of the votes attaching to the CCHL Shares of the CCHL Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast against the resolution at the Court Meeting is not more than 10% of all the CCHL Shares held by all of the CCHL Independent Shareholders. Based on 96,618,692 CCHL Shares presently held by the CCHL Independent Shareholders, 10% of such CCHL Shares amounts to 9,661,869 CCHL Shares.

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## LETTER FROM THE CCHL BOARD

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Immediately following the Court Meeting, the Special General Meeting will be held for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme.

CIHL and Firstland will not vote at the Court Meeting and the CCHL Shares held by CIHL and Firstland will not form part of the Scheme Shares. Dr. Chow, Mr. Kuok and Mr. Tam and their respective concert parties will not be counted in the quorum and will abstain from voting on the Proposal at the Court Meeting but the CCHL Shares that they hold will form part of the Scheme Shares.

CIHL, Firstland, Dr. Chow, Mr. Kuok and Mr. Tam have indicated that if the Proposal is approved at the Court Meeting, they will vote or will procure the voting of their beneficial interests in CCHL in favour of the special resolution to be proposed at the Special General Meeting to be convened following the Court Meeting to approve and give effect to the Proposal (including the cancellation and extinguishment of the Scheme Shares and the reduction of the authorised and issued share capital of CCHL).

Whether or not you are able to attend the Meetings in person, the CCHL Independent Shareholders are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the CCHL Shareholders are strongly urged to complete and sign the enclosed white form of proxy in respect of the Special General Meeting in accordance with the instructions respectively printed thereon and to deposit them with the branch share registrar of CCHL in Hong Kong, Standard Registrars Limited, situate at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible, but in any case not later than the following respective times:

- (a) in the case of the pink form of proxy for use at the Court Meeting, the CCHL Independent Shareholders are requested to deposit the form of proxy not later than 9:15 a.m. on Wednesday, 14th January, 2004, but if it is not so deposited, it may be handed to the chairman of the Court Meeting at the Court Meeting; and
- (b) in order to be valid, the white form of proxy for use at the Special General Meeting must be deposited not later than 9:30 a.m. on Wednesday, 14th January, 2004.

The completion and return of a form of proxy for any of the Meetings will not preclude you from attending the relevant Meeting and voting in person if you so wish. In the event that you attend a Meeting after having deposited the relevant form of proxy, that form of proxy will be deemed to have been revoked.

**CCHL Independent Shareholders should note that if you appoint the chairman of the Court Meeting to be your proxy and you fail to indicate your vote on the pink form of proxy, the chairman of the Court Meeting will be entitled to cast your vote at his discretion.**

**CCHL Shareholders should note that if you appoint the chairman of the Special General Meeting to be your proxy and you fail to indicate your vote on the white form of proxy, the chairman of the Special General Meeting will be entitled to cast your vote at his discretion.**

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## LETTER FROM THE CCHL BOARD

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For the purpose of determining the entitlements of the CCHL Independent Shareholders to attend and vote at the Court Meeting and the CCHL Shareholders to attend and vote at the Special General Meeting, the CCHL Shareholders register will be closed from Wednesday, 14th January, 2004 to Friday, 16th January, 2004 (both dates inclusive). During such period no transfer of CCHL Shares will be effected. In order to qualify to vote at the Court Meeting or the Special General Meeting, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of CCHL in Hong Kong, Standard Registrars Limited, situate at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 13th January, 2004.

Assuming that the conditions to the Proposal are fulfilled or, where applicable, waived, the Scheme will become effective on the Effective Date, which is expected to be on Friday, 6th February, 2004 (Bermuda time). Further press announcements will be made giving details of the results of the Meetings and, if all the resolutions are duly passed at the Meetings, details will be provided as to the last day for dealing in the CCHL Shares, the Record Date, the result of the hearing of the petition for the sanction of the Scheme by the Supreme Court, the Effective Date and the date of the withdrawal of the Listing.

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

Your attention is drawn to the sections headed “Share certificates, dealings and listing” and “Registration and payment” in the Explanatory Statement on pages 27 and 38 of this document.

### **FURTHER INFORMATION**

A letter from the CCHL Independent Board Committee to CCHL Independent Shareholders is reproduced on page 14 of this document. A letter from Quam to the CCHL Independent Board Committee is reproduced on pages 15 to 26 of this document. We advise you to read these letters carefully before you take any action in respect of the Proposal.

In considering what action to take in connection with the Proposal, you should consider your own tax position and, if you are in any doubt, you should consult your professional advisers.

You are also urged to read carefully the Explanatory Statement and all the Appendices to this document set out on pages 27 to 38 of this document, the Scheme set out on pages 85 to 90 of this document and the notices of the Meetings set out on pages 91 to 94 of this document.

Yours faithfully,  
for and on behalf of the CCHL Board  
**Chow Yei Ching**  
*Chairman*

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## LETTER FROM THE CCHL INDEPENDENT BOARD COMMITTEE

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### **CHEVALIER CONSTRUCTION HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

22nd December, 2003

*To the CCHL Independent Shareholders*

Dear Sir or Madam,

**Proposed Privatisation of  
CHEVALIER CONSTRUCTION HOLDINGS LIMITED  
by Chevalier International Holdings Limited  
by way of a Scheme of Arrangement  
under Section 99 of the Companies Act 1981 of Bermuda (as amended)**

It was announced on 31st October, 2003 that CIHL had requested the CCHL Board to put forward the Proposal to the CCHL Shareholders for the purpose of acquiring their interests in CCHL by way of the Scheme at the Cancellation Price of HK\$0.25 per Scheme Share. Details of the Proposal are set out in the letter from the CCHL Board on pages 7 to 13 of this document and the Explanatory Statement set out on pages 27 to 38 of this document. For the purpose of the Proposal we have been appointed by the CCHL Board to be the members of the CCHL Independent Board Committee in order to make a recommendation to the CCHL Independent Shareholders as to how they should vote on the Scheme. Quam has been appointed as the independent financial adviser to advise the CCHL Independent Board Committee in connection with the Proposal.

Having taken into account the terms of the Proposal and the opinion of Quam and, in particular, the factors, reasons and recommendations set out in the letter from Quam to the CCHL Independent Board Committee as set out on pages 15 to 26 of this document and to which we draw the specific attention of the CCHL Independent Shareholders, we consider that the terms of the Proposal taken as a whole to be fair and reasonable in so far as the CCHL Independent Shareholders are concerned.

Accordingly, we recommend the CCHL Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting. We also recommend the CCHL Independent Shareholders to vote in favour of the special resolution to approve and give effect to the Scheme at the Special General Meeting.

We also draw your attention to (i) the letter from the CCHL Board; (ii) the Explanatory Statement; and (iii) the Appendices to this document.

Yours faithfully,

**Sun Kai Dah, George**

**Du Shue Chu**

*CCHL Independent Board Committee*



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## LETTER FROM QUAM

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*Set out below is the text of the letter from Quam to the CCHL Independent Board Committee prepared for inclusion in this document.*



22nd December, 2003

The Independent Board Committee of  
Chevalier Construction Holdings Limited  
22nd Floor, Chevalier Commercial Centre  
8 Wang Hoi Road  
Kowloon Bay  
Hong Kong

Dear Sirs,

**PROPOSED PRIVATISATION OF  
CHEVALIER CONSTRUCTION HOLDINGS LIMITED  
BY CHEVALIER INTERNATIONAL HOLDINGS LIMITED  
BY WAY OF A SCHEME OF ARRANGEMENT**

### INTRODUCTION

We refer to our appointment to advise the CCHL Independent Board Committee with respect to the Proposal. Details of the Proposal are set out in the scheme document of CCHL dated 22nd December, 2003 (the "Document"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Document unless the context requires otherwise.

The CCHL Board comprises six directors of whom four are executive directors and the remaining two are independent non-executive directors. The four executive directors are Dr. Chow, Mr. Kuok, Mr. Tam and Mr. Wong Kie Ngok, Alexander, and the two independent non-executive directors are Mr. Sun Kai Dah, George and Dr. Du Shue Chu.

As noted in the "Letter from the CCHL Board" of the Document, Dr. Chow, Mr. Kuok, Mr. Tam and Mr. Wong Kie Ngok, Alexander are also CIHL Directors who are presumed to be acting in concert with CIHL. Accordingly, none of the executive CCHL Directors are considered to be sufficiently independent under the Takeovers Code for the purpose of advising the CCHL Independent Shareholders on the Proposal. As a result, Mr. Sun Kai Dah, George and Dr. Du Shue Chu, the independent non-executive CCHL Directors, who have no interest in the Proposal, have been appointed as members of the CCHL Independent Board Committee to advise the CCHL Independent Shareholders on the Proposal.

As the independent financial adviser to the CCHL Independent Board Committee, our role is to give an independent opinion to the CCHL Independent Board Committee for them to advise the CCHL Independent Shareholders as to whether the terms of the Proposal and in particular the Cancellation Price, are fair and reasonable so far as the CCHL Independent Shareholders are concerned.

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## LETTER FROM QUAM

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In formulating our recommendation, we have relied upon the information and facts supplied by CCHL and its advisers, and the opinions expressed by and the representations of the CCHL Directors and the management of CCHL. We have assumed that all information and representations contained or referred to in the Document are true and accurate in all respects at the date thereof and may be relied upon; and have relied on the responsibility statements set out in section 1 of Appendix II to the Document. We have also assumed that all statements contained and representations made or referred to in the Document are true at the time they are made and continue to be true at the date thereof. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the CCHL Directors and the CCHL Directors have confirmed to us that no material facts have been omitted from the information provided and referred to in the Document.

We consider that we have reviewed sufficient information to reach an informed view and to justify our reliance on the accuracy of the information contained in the Document and to provide a reasonable basis for our recommendation. We have not, however, carried out any independent verification of the information, nor have we conducted any form of in-depth investigation into the business and affairs of the CCHL Group.

### **THE PROPOSAL**

On 30th October, 2003, CIHL, the single largest shareholder of CCHL, requested the CCHL Board to put forward a proposal to the Scheme Shareholders regarding the proposed privatisation of CCHL by way of the Scheme.

The Proposal involves the following principal steps:

- (i) All the Scheme Shares held by the Scheme Shareholders will be cancelled and, in consideration for that, each Scheme Shareholder will receive the Cancellation Price of HK\$0.25 in cash for every Scheme Share; and
- (ii) CCHL will be wholly owned by CIHL and the listing of the CCHL Shares on the Stock Exchange will be withdrawn.

The Proposal is subject to a number of conditions including but not limited to the CCHL Independent Shareholders' approval at the Court Meeting and the CCHL Shareholders' approval at the Special General Meeting.

Further details of the terms and conditions of the Proposal are set out in the "Explanatory Statement" in the Document.

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# LETTER FROM QUAM

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## PRINCIPAL FACTORS AND REASONS CONSIDERED

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

### 1. Background to, and reasons for, the Proposal

The CCHL Group is principally engaged in building construction, building maintenance and civil engineering in Hong Kong.

One of the reasons stated by the CCHL Directors for the Proposal is that given the discount of the market price to the net asset value per CCHL Share and the low liquidity of the CCHL Shares on the Stock Exchange, they are of the opinion that it may be difficult for CCHL to raise new funding for the CCHL Group's business through the equity market.

It is noted that for the two year period up to and including 30th October, 2003, the Last Trading Day, the average closing price of the CCHL Shares was about HK\$0.116 per CCHL Share, representing a discount of about 62.2% to the audited consolidated net asset value per CCHL Share of HK\$0.307 as at 31st March, 2003. Also, for the same period mentioned above, the average daily trading volume of the CCHL Shares on the Stock Exchange was 34,966 CCHL Shares only, representing about 0.01% of the issued share capital of CCHL as at the date of the Announcement.

Furthermore, the CCHL Directors have stated that since the net asset base of CCHL is small, CCHL has encountered difficulties in obtaining financing and banking facilities to fund the CCHL Group's business development and to participate in sizeable construction projects.

Full details of the reasons for the Proposal are contained in the section headed "Background to, and reasons for, the Proposal" in the "Explanatory Statement" contained in the Document. We consider the Proposal to be in the interests of the CCHL Independent Shareholders, as it provides an opportunity for them to realise their investments in CCHL at a premium to the prevailing market prices, after taking into account of our assessment of the other aspects of the Proposal as analysed in the following sections.

### 2. Historical financial performance and the business outlook

As noted under the section headed "Future intentions of CIHL on CCHL Group" in the "Explanatory Statement" of the Document, CIHL intends to continue with the existing business of the CCHL Group upon successful privatisation of CCHL.

The table below sets out the CCHL Group's turnover, segment result and net profit/(loss) for each of the three financial years ended 31st March, 2003 and for the six months ended 30th September, 2003, which are extracted from the published consolidated accounts of the CCHL Group.

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## LETTER FROM QUAM

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	Year ended 31st March, 2001 (Audited) HK\$'000	Year ended 31st March, 2002 (Audited) HK\$'000	Year ended 31st March, 2003 (Audited) HK\$'000	6 months ended 30th September, 2003 (Unaudited) HK\$'000
<b>Turnover:</b>				
Building construction and maintenance	979,180	397,598	81,615	56,803
Civil engineering	<u>247,283</u>	<u>129,329</u>	<u>143,883</u>	<u>94,199</u>
Total	1,226,463	526,927	225,498	151,002
<b>Segment result:</b>				
Building construction and maintenance	(12,734)	28,346	52,355	8,712
Civil engineering	<u>(15,396)</u>	<u>(19,708)</u>	<u>(34,275)</u>	<u>(2,817)</u>
Total	(28,130)	8,638	18,080	5,895
<b>Net profit/(loss) for the year/period</b>	<u><u>(27,657)</u></u>	<u><u>6,723</u></u>	<u><u>7,418</u></u>	<u><u>2,434</u></u>

(a) *Turnover and segment result*

(i) Building construction and maintenance division

The CCHL Group has been involved in various construction projects in Hong Kong for more than ten years. The CCHL Group has been mainly involved in the development of public housing estates, the Private Sector Participation Scheme for the Hong Kong Housing Authority, construction of schools and a number of commercial, industrial, residential and shopping arcade development projects for the private sector.

The CCHL Group's building construction and maintenance operations have shown a declining trend in turnover for the past three financial years. The division's turnover of about HK\$81.6 million for the year ended 31st March, 2003 accounted for only 8.3% of that of the year ended 31st March, 2001, or represented a decrease of about 91.7 times. Furthermore, it is noted that the turnover was generated mainly from one project, namely the construction of Lam Tin Primary School in Kwun Tong, which commenced in February 2002 and completed in June 2003.

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## LETTER FROM QUAM

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In the past, a substantial portion of the division's revenue has been generated from the construction of public housing estates and home ownership estates in Hong Kong. As a result of the suspension of the Private Sector Participation Scheme and sale of Public Rental Housing Units, the number of flats to be constructed in the public sector has reduced. According to the statistics released by the Census and Statistics Department, the total number of public rental flats and subsidised sale flats completed in 2002 was about 31,100, representing a 56.7% decline compared with previous year of about 72,300. The reduction of construction projects in the public sector has adversely affected the revenue of the building construction and maintenance division.

Despite the continuous decline in turnover for the past three financial years, the Group has managed to improve the operating result for the division. The CCHL Directors consider that the improvement in the result was due to the improvement in project management and implementation of stringent cost measures.

As stated in the 2002-2003 annual report of CCHL, the CCHL Group intends to actively look for opportunities in various medium-size non-residential projects such as institutions, communal and government facilities.

As at the Latest Practicable Date, the CCHL Group has three construction contracts on hand, namely the International Wetland Park and a primary school and a secondary school in each of Yuen Long and Tin Shui Wai, with a total contract value of around HK\$571.3 million. All of these projects commenced in 2003 and are expected to be completed before mid 2005. In addition, the aggregate value of the contracts for maintenance operations are about HK\$34.8 million as at the Latest Practicable Date.

(ii) Civil engineering division

The number of civil engineering contracts on hand during each of the three financial years ended 31st March, 2003 was 5, 4 and 2 respectively. For the year ended 31st March, 2003, the civil engineering operations recorded an increase of about 11.3% in turnover compared with previous year which was due to the increase in the value of work carried out for the projects. Nevertheless, the division has incurred losses for each of the three financial years ended 31st March, 2003.

(b) *Net profit*

Despite the improvement in operating results for the year ended 31st March, 2003, the Group's net profit remained at about the same level since the taxation charges increased by about HK\$11.1 million compared with previous year.

For the six months ended 30th September, 2003, the unaudited profit of the CCHL Group was about HK\$2.4 million, representing a decrease of about HK\$1.8 million or about 42.6% from the profit of the same period last year. The decrease in profit was mainly attributable to the increase in profit from operations of about HK\$1.7 million which was offset by the increase in share of losses of jointly controlled entities of about HK\$1.7 million and an increase in taxation charges of about HK\$1.3 million.

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## LETTER FROM QUAM

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(c) *Business outlook*

The Centa-City Index (the “CCI”), a property index released by Centaline Property Agency Limited, reflects that there has been a downward trend in the selling prices of properties in Hong Kong in recent years. The CCI as at 30 December of 2000, 2001 and 2002 was 44.31, 39.68 and 34.83 respectively. The sliding property price has undermined the confidence of the consumers and investors in property investment. As a result, the building construction industry has been adversely affected.

In November 2002, the Hong Kong government introduced “nine-point measures” to deal with the serious imbalance of supply and demand in the property market with a view to restoring the confidence of the public and investors. One of the measures was the suspension of the Home Ownership Scheme so as to reduce the supply of public housing.

Recently, the government has also negotiated with the Kowloon-Canton Railway Corporation (“KCRC”) and Mass Transit Railway Corporation Limited (“MTRCL”) in a view to enable an orderly disposal of the railway related property developments. KCRC has stated that its residential projects will not invite expression of interests before 2005. No new residential flats will be provided by MTRCL in the coming three years except those which are already under construction. In other words, the property development along the railways will be limited in the next two years.

It is the general consensus that the number of residential flats in the public sector and railway related residential properties to be constructed is expected to substantially decrease in the next two to three years. Hence, the competition among construction companies is expected to be intensified. Moreover, as the Hong Kong Government aims to balance its books by 2008/9 and has mapped out spending cuts, it can be reasonably expected that its spending on infrastructure projects will be restrained in the near future.

(d) *Conclusion*

The financial performance of the CCHL Group for the past three financial years has been on a downward trend except for the slight increase in net profit to about HK\$0.7 million for the last financial year. This has been mainly due to the reduction of construction projects in the public sector. While one could be cautiously optimistic about the slow recovery of the property sector in Hong Kong in the next few years, which may in time lead to an increase in the activity level of the local construction industry, it can be reasonably expected that the financial performance of the CCHL Group in the near future will still be hampered by the intensified competition among construction companies in Hong Kong.

In this regard, we consider the Proposal to be in the interests of the CCHL Independent Shareholders, as it can be viewed as an opportunity for them to liquidate their investments in CCHL at a premium to the prevailing market prices for other alternate investments.

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## LETTER FROM QUAM

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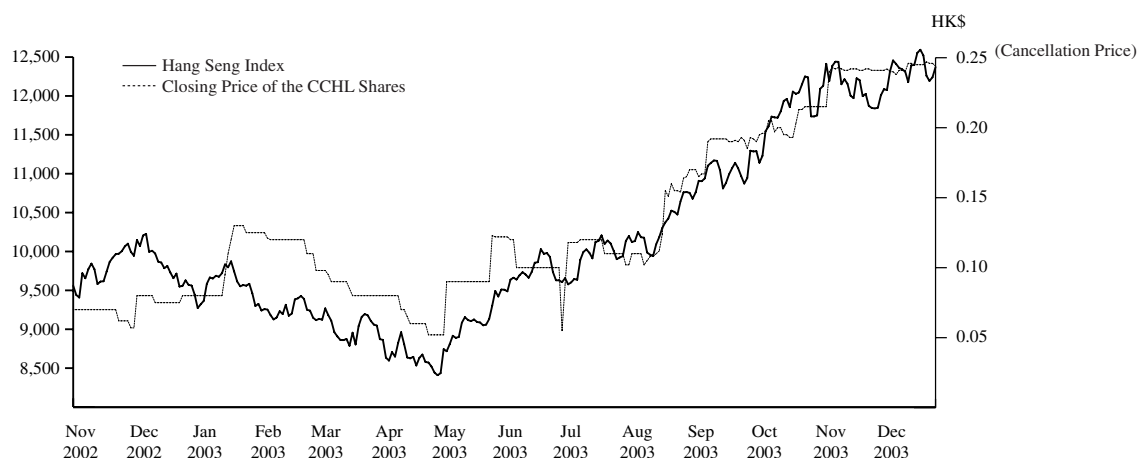
### 3. Analysis of the Cancellation Price

Based on 249,000,000 CCHL Shares in issue as at the Latest Practicable Date, the Proposal values the CCHL Group at around HK\$62.3 million.

(a) *Price performance of the CCHL Shares*

As CCHL is a listed company, the CCHL Share price should reflect the prevailing market assessment of its fair value. We have compared CCHL Share price, with the benchmark Hang Seng Index (the “HSI”), the main indicator of the share performance for listed shares in Hong Kong which reflecting general trends of the market.

The following chart illustrates the movement of the daily closing prices of the CCHL Shares relative to the HSI during the period from 31st October, 2002, being one year prior to the Last Trading Day, to the Last Trading Day (the “Pre-Announcement Period”) and from 31st October, 2003 to the Latest Practicable Date (the “Post-Announcement Period”) (collectively known as the “Review Period”):



Source: Bloomberg

As shown in the price chart above, the CCHL Shares traded below the Cancellation Price at all times during the Review Period.

From 31st October, 2002 to 15th January, 2003, the CCHL Share price underperformed the HSI. From 16th January, 2003 onwards, the CCHL Share price has moved largely in line with the HSI except that the closing prices plunged at the end of June 2003. Save as the results announcement announced on 16th December, 2002, 16th July, 2003 and 18th December, 2003 and a press release dated 22nd May, 2002 relating to the contract to build the International Wetland Park in Hong Kong, CCHL has not announced any major corporate news during the Review Period. The CCHL Directors are unaware of any particular reasons in relation to the CCHL Share price performance during the Review Period.

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## LETTER FROM QUAM

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The following table shows the comparison between the Cancellation Price and historical closing prices of the CCHL Shares during the Review Period:

Reference date/period	Closing price/ Average closing price of the CCHL Shares HK\$	Premium of the Cancellation Price to closing price/average closing price
<i>Pre-Announcement Period</i>		
30th October, 2003, the Last Trading Day	0.215	16.3%
30 days up to and including 30th October, 2003	0.2061	21.3%
90 days up to and including 30th October, 2003	0.1781	40.4%
180 days up to and including 30th October, 2003	0.1422	75.8%
One year up to and including 30th October, 2003	0.1142	118.9%
<i>Post-Announcement Period</i>		
3rd November, 2003, the first trading day after the issue of the Announcement	0.243	2.9%
3rd November, 2003 to the Latest Practicable Date	0.2425	3.1%
The Latest Practicable Date	0.244	2.5%

*Source: Bloomberg*

As shown in the above table, the CCHL Shares have been traded below the Cancellation Price at all times during the Review Period. It is noted that the premium of the Cancellation Price over the historic closing price of the CCHL Shares narrowed substantially only after the issue of the Announcement. Nevertheless, there is no assurance that the price of the CCHL Shares will remain at the current level if the Proposal is withdrawn or lapses.

Given the price history of the CCHL Shares analysed above, we consider the Cancellation Price to be reasonable and in the interests of the CCHL Independent Shareholders.

*(b) Price-to-Earnings ratio and Price-to-Book ratio*

We have reviewed valuation benchmarks for all comparable listed companies in Hong Kong, which are principally engaged in the construction business in Hong Kong and with a market capitalisation of less than HK\$80 million (the “Comparable Companies”).



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## LETTER FROM QUAM

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Set out below is our analysis of the price-to-earnings ratio (“PER”) and price-to-book ratio (“PBR”), the two most commonly used valuation benchmarks, for each of these Comparable Companies based on the respective closing price of their shares as at the Latest Practicable Date and that of CCHL based on the Cancellation Price:

Company	Closing price/ Cancellation price HK\$	Market capitalisation as at the Latest Practicable Date HK\$'million	Last audited profit/(loss) attributable to shareholders HK\$'million	Last audited net asset value HK\$'million	PER Times	PBR Times
CIG-WH International Holdings Limited	0.128	36.9	4.2	117.6	8.8	0.3
Dickson Group Holdings Limited	0.058	34.9	(11.2)	107.7	N/A	0.3
<b>Average</b>					<b>8.8</b>	<b>0.3</b>
CCHL under the Proposal	0.25	62.3	7.4	76.4	8.4	0.8
	<i>(Note 1)</i>	<i>(Note 1)</i>			<i>(Note 1)</i>	<i>(Notes 1&amp;2)</i>

Sources: *Bloomberg and the latest annual reports of the respective Comparable Companies*

Notes:

1. These are based on the Cancellation Price of HK\$0.25 under the Proposal.
2. Based on the unaudited pro forma adjusted consolidated net tangible asset value of the CCHL Group as disclosed in Appendix I of about HK\$78.8 million, the PBR is also about 0.8 times.

As illustrated in the table above, the PER represented by the Cancellation Price of 8.4 times is slightly lower than the comparable profitable company of 8.8 times, while the PBR represented by the Cancellation Price of 0.8 times is substantially higher than those of the Comparable Companies. In this regard, we consider the Cancellation Price to be fair and reasonable and in the interests of the CCHL Independent Shareholders.

*(c) Dividend yield*

CCHL has not declared any dividends to the CCHL Shareholders in the past few years. As such, there is no basis for appraising the value of the CCHL Group and the fairness and reasonableness of the Cancellation Price based on historical dividend yield of CCHL.

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## LETTER FROM QUAM

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(d) *Comparison to recent privatisation precedents in Hong Kong*

We have reviewed all privatisation proposals announced and successfully completed since 1st January, 2003 for companies listed on the Stock Exchange, details of which are set out in the following table.

Company	Date of announcement 2003	Principal activities	Offer price HK\$	Premium over closing share price/ average closing share price prior to the privatisation announcement				Premium/ (discount) of offer price to	
				Last trading day	30 days	90 days	180 days	audited net tangible asset value per share	adjusted net tangible asset value per share
Top Glory International Holdings Limited	3rd May	Property investment, property development and hotel operations	0.74	72.1%	77.8%	65.1%	80.1%	(48.7)%	(44.8)%
SHC Medical Science and Technology (Group) Limited	21st May	Manufacturing, distribution and sale of Chinese medicine and health supplement products	2.15	15.0%	23.1%	31.8%	40.2%	74.8%	76.2%
Pacific Concord Holding Limited	26th May	Property development and investment	0.65	51.2%	64.1%	49.0%	49.3%	(75.2)%	(64.5)%
iLink Holdings Limited	20th August	Operation of data centres	0.035	75.0%	75.0%	59.1%	50.2%	(16.1)%	(7.5)%
<b>Range</b>				<b>15.0%</b> to <b>75.0%</b>	<b>23.1%</b> to <b>77.8%</b>	<b>31.8%</b> to <b>65.1%</b>	<b>40.2%</b> to <b>80.1%</b>	<b>(75.2)%</b> to <b>74.8%</b>	<b>(64.5)%</b> to <b>76.2%</b>
<b>Average</b>				<b>53.3%</b>	<b>60.0%</b>	<b>51.3%</b>	<b>55.0%</b>	<b>(16.3)%</b>	<b>(10.2)%</b>
CCHL	31st October	Building construction, building maintenance and civil engineering	0.25	16.3%	21.3%	40.4%	75.8%	(18.6)%	(21.1)%

Sources: *Bloomberg and the offer documents of the aforementioned privatised companies*

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## LETTER FROM QUAM

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It should be noted that amongst the privatisation precedents analysed above, none of the companies are engaged in similar principal activities to the CCHL Group.

As illustrated in the table above, in terms of the comparison between the offer prices and the historical average closing prices, other than that for 180-day period, the premiums offered by the Proposal (the “Cancellation Premiums”) are lower than the average of the privatisation precedents. However, the Cancellation Premiums are still within the ranges except that for 30-day period prior to the privatisation announcement, that the Cancellation Premium is slightly lower than the lowest premium recorded by 1.8%.

The average discount to audited net tangible asset value per share is approximately 16.3% which is lower than that represented by the Cancellation Price under the Proposal. However, the discount represented by the Cancellation Price is still within the range of the recent privatisation proposals. In addition, the discount to adjusted net tangible asset value per share represented by the Cancellation Price is also within the range of the recent privatisation proposals.

Based on the above analysis, we consider that the Cancellation Price is fair and reasonable in this regard.

#### 4. Liquidity of the CCHL Shares

We have considered the average daily trading volume of the CCHL Shares during the Review Period:

	<b>Average daily trading volume</b> <i>Number of CCHL Shares</i>	<b>Percentage of average daily trading volume to the issued share capital</b> <i>(Note 1)</i>	<b>Percentage of average daily trading volume to free float CCHL Shares</b> <i>(Note 2)</i>
Pre-Announcement Period	58,132	0.023%	0.060%
Post-Announcement Period	652,259	0.262%	0.675%

*Source: Bloomberg*

*Notes:*

1. Based on 249,000,000 CCHL Shares in issue as at the Latest Practicable Date.
2. Based on 96,618,692 CCHL Shares held by the public, being the CCHL Shares in issue less the CCHL Shares held by CIHL and its concert parties, as at the Latest Practicable Date.

It is noted that the daily trading volume of the CCHL Shares has increased substantially since the date of the Announcement, which in our opinion was mainly caused by the issue of the Announcement. Nevertheless, trading of the CCHL Shares for both the Pre-Announcement Period and Post-Announcement Period has been rather inactive in terms of the issued share capital and the free float CCHL Shares as

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## LETTER FROM QUAM

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illustrated above. Based on the trading volume of the CCHL Shares in the past 12 months prior to the Announcement, we are of the view that it is not likely that the relatively active trading volume reached after the Announcement was made will continue if the Proposal is withdrawn or lapses.

Given the lack of liquidity in the trading of the CCHL Shares during the Review Period, the CCHL Independent Shareholders who intend to dispose their holdings in the market within a short timeframe may not be able to do so without exerting a downward pressure on the CCHL Share price. Therefore, we are of the view that the Proposal represents an alternative exit for such CCHL Independent Shareholders.

### RECOMMENDATION

Having considered the principal factors and reasons discussed above, we draw your attention to the following key factors, which should be read in conjunction with and interpreted in the full context of this letter, in arriving at our conclusion:

- The financial performance of the CCHL Group has been adversely affected by the decrease in the number of flats that has been constructed in the public sector and the property market downturn in recent years;
- The Proposal provides an opportunity for all the CCHL Independent Shareholders to realise their investments in CCHL at a premium to the closing prices of the CCHL Shares over the Review Period;
- The PER represented by the Cancellation Price is slightly lower than the comparable profitable company, while the PBR represented by the Cancellation Price is substantially higher than those of the Comparable Companies;
- In terms of comparison between the offer prices and the historical closing prices, the Cancellation Premiums are mostly within the ranges of the recent privatisation precedents. Moreover, the discount represented by the Cancellation Price over the audited net asset value per share is also within the ranges of the recent privatisation precedents; and
- Given the lack of liquidity in the trading of the CCHL Shares during the Review Period, those CCHL Independent Shareholders who intend to dispose their holdings in the market within a short timeframe may not be able to do so without exerting a downward pressure on the CCHL Share price.

Based on the above, we are of the view that the terms of the Proposal, and in particular the Cancellation Price, are fair and reasonable so far as the CCHL Independent Shareholders are concerned. Accordingly, we recommend the CCHL Independent Board Committee to advise the CCHL Independent Shareholders to vote in favour of the relevant resolutions regarding the Scheme at the Court Meeting and the Special General Meeting.

Yours faithfully,

For and on behalf of

**Quam Capital Limited**

**Richard D Winter**

**Karen C Wong**

*Managing Director*

*Director*

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## **EXPLANATORY STATEMENT**

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

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

#### **INTRODUCTION**

It was jointly announced by CCHL and CIHL on 31st October, 2003 that on 30th October, 2003 CIHL had requested the CCHL Directors to put forward the Proposal to the Scheme Shareholders regarding a proposed privatisation of CCHL by way of the Scheme involving the cancellation and extinguishment of all the Scheme Shares, as a result of which CCHL will be wholly owned by CIHL.

The purpose of this Explanatory Statement is to explain the terms and effect of the Proposal and to provide CCHL Shareholders other relevant information as set out in this document.

The particular attention of CCHL Shareholders is drawn to the following sections of this document: (a) a letter from the CCHL Board set out on pages 7 to 13 of this document; (b) a letter of recommendation from the CCHL Independent Board Committee in connection with the Proposal set out on page 14 of this document; (c) a letter of advice from Quam in connection with the Proposal set out on pages 15 to 26 of this document; and (d) the Scheme of Arrangement set out on pages 85 to 90 of this document.

#### **SUMMARY OF THE PROPOSAL**

It is proposed that, subject to the conditions to the Proposal being fulfilled or, where applicable, waived, the Proposal will be implemented by way of the Scheme, which will involve a cancellation and extinguishment of all the Scheme Shares and a reduction of the authorised and issued share capital of CCHL under Section 46 of the Companies Act. The Scheme also provides that, in consideration of such cancellation, Scheme Shareholders will be entitled to receive the Cancellation Price, being HK\$0.25 in cash from CIHL for each Scheme Share held. The consideration to be received by the Scheme Shareholders under the Proposal is not subject to the Stamp Duty Ordinance (Chapter 117 of the Laws of Hong Kong).

Based on the Cancellation Price, the Proposal valued the entire issued share capital of 249,000,000 CCHL Shares as at the Latest Practicable Date at approximately HK\$62.3 million. As at the Latest Practicable Date, 159,614,556 Scheme Shares were subject to the Proposal and the aggregate Cancellation Price payable by CIHL under the Proposal amounting to approximately HK\$39.9 million.

The Proposal will be financed by general banking facilities available to CIHL. Somerley is satisfied that sufficient financial resources are available to CIHL for implementation of the Proposal. It is not the intention of CIHL that the payment of interest or, repayment of the general banking facilities will depend, to any extent, on the business of CCHL.

The Proposal will become effective and binding on CCHL and all Scheme Shareholders provided that all the conditions to the Proposal are fulfilled or, where applicable, waived. Upon the Effective Date, the authorised and issued share capital of CCHL shall be reduced by cancelling and extinguishing all the Scheme Shares. All of the conditions to the Proposal will have to be fulfilled or, as applicable, waived on or before 31st March, 2004 (or such other date as CIHL and CCHL may agree or as the Supreme Court may direct), otherwise the Proposal will lapse. An announcement will be made by CIHL and CCHL if the Proposal lapses.

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## EXPLANATORY STATEMENT

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### CONDITIONS OF THE PROPOSAL

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

- (a) the approval of the Proposal (by way of poll) by a majority in number of the CCHL Independent Shareholders representing not less than three-fourths in value of the Scheme Shares present and voting either in person or by proxy at the Court Meeting to consider the Proposal, provided that:
  - (i) the Scheme is approved by at least 75% of votes attaching to the Scheme Shares held by the CCHL Independent Shareholders present and voting either in person or by proxy; and
  - (ii) the number of votes cast against the resolution to approve the Proposal is not more than 10% of the votes attaching to all the Scheme Shares held by the CCHL Independent Shareholders;
- (b) the passing of a special resolution at the Special General Meeting to be convened following the Court Meeting to approve and give effect to the Proposal (including the cancellation of the Scheme Shares and the reduction of the authorised and issued share capital of CCHL) by a majority of at least three-fourths of votes cast by the CCHL Shareholders present and voting, in person or by proxy;
- (c) the sanction of the Proposal (with or without modification) by the Supreme Court and the delivery to the Registrar of Companies in Bermuda of a copy of the order of the Supreme Court for registration;
- (d) the necessary compliance with the requirements of Section 46 of the Companies Act in relation to the reduction of the authorised and issued share capital of CCHL as regards the Scheme Shares;
- (e) all Authorisations in connection with the Proposal having been obtained from, with or by (as the case may be) the Relevant Authorities, in Bermuda and/or Hong Kong and/or any other relevant jurisdictions;
- (f) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any Relevant Authorities which is not expressly provided for, or is in addition to requirements expressly provided for, in relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each aforesaid case up to and at the time when the Proposal becomes effective;
- (g) all other necessary consents which may be required under any existing contractual obligations of CCHL being obtained; and

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## EXPLANATORY STATEMENT

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- (h) all other necessary consents which may be required under any existing contractual obligations of CIHL being obtained.

CIHL reserves the right to waive conditions (g) and/or (h), either in whole or in respect of any particular matter. In the event that condition (e) or (f) is not fulfilled by reason of an Authorisation not having been obtained, CIHL reserves the right to assess the materiality of such non-fulfillment and to waive the fulfillment of such condition to such extent where it considers appropriate.

Conditions (a) to (d) cannot be waived in any event. All of the above conditions will have to be fulfilled or waived, as applicable, on or before 31st March, 2004 (or such other date as CIHL and CCHL may agree or as the Supreme Court may direct), otherwise the Proposal will lapse. An announcement will be made by CIHL and CCHL if the Proposal lapses.

### FINANCIAL EFFECTS OF THE PROPOSAL

#### Shareholding structure

The table below sets out in detail the shareholding structure of CCHL as at the Latest Practicable Date and the Effective Date:

	<b>As at the Latest Practicable Date</b>		<b>As at the Effective Date</b>	
	<b>Number of CCHL Shares</b>	<b>(%)</b>	<b>Number of CCHL Shares</b>	<b>(%)</b>
CIHL	72,648,770	29.18	72,648,770	81.28
Firstland <sup>1</sup>	16,736,674	6.72	16,736,674	18.72
Dr. Chow and his concert parties <sup>2</sup>	61,036,489	24.51	–	–
Mr. Kuok and his concert parties <sup>2</sup>	1,326,437	0.53	–	–
Mr. Tam and his concert parties <sup>2</sup>	632,938	0.26	–	–
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal of CCHL Shares held by CIHL and its concert parties	152,381,308	61.20	–	–
Public	<u>96,618,692</u>	<u>38.80</u>	<u>                    </u>	<u>                    </u>
	<u>249,000,000</u>	<u>100.00</u>	<u>89,385,444<sup>3</sup></u>	<u>100.00</u>

Notes:

- Firstland is a wholly-owned subsidiary of CHK, which is a wholly-owned subsidiary of CIHL.*
- Dr. Chow is the chairman of both CIHL and CCHL. He is also a CIHL Director and a CCHL Director. Mr. Kuok is a CIHL Director and a CCHL Director. Mr. Tam is a CIHL Director and a CCHL Director. CIHL Directors (together with their close relatives (which means director's spouse, de facto spouse, children, parents and siblings) are presumed to be parties acting in concert with CIHL).*
- The 159,614,556 CCHL Shares subject to the Proposal will be cancelled and extinguished upon the Scheme becoming effective. 89,385,444 CCHL Shares being the aggregate CCHL Shares owned by CIHL and Firstland will remain in issue immediately after the Scheme becoming effective.*

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## EXPLANATORY STATEMENT

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Upon the completion of the Proposal, CCHL will be wholly owned by CIHL and the listing of the CCHL Shares on the Stock Exchange will be withdrawn. There are no outstanding options, warrants or convertible securities in CCHL as at the Latest Practicable Date.

The Proposal will be subject to, among other things, approval by the CCHL Independent Shareholders at the Court Meeting. CIHL and Firstland will not vote at the Court Meeting and the CCHL Shares held by CIHL and Firstland will not form part of the Scheme Shares. Dr. Chow, Mr. Kuok and Mr. Tam and their respective concert parties will not be counted in the quorum and will abstain from voting on the Proposal at the Court Meeting but the CCHL Shares that they hold will form part of the Scheme Shares. CIHL, Firstland, Dr. Chow, Mr. Kuok and Mr. Tam have indicated that if the Proposal is approved at the Court Meeting, they will vote or will procure the voting of their beneficial interests in CCHL in favour of the special resolution to be proposed at the Special General Meeting to be convened following the Court Meeting to approve and give effect to the Proposal (including the cancellation of the Scheme Shares and the reduction of the authorised and issued share capital of CCHL).

None of CIHL, Firstland, CIHL Directors and their respective concert parties has dealt for value in CCHL Shares during the six-month period up to and including the Latest Practicable Date.

### Share value

The Cancellation Price represents:

The Cancellation Price per Scheme Share under the Proposal which will be payable in cash represents:

- (a) a premium of approximately 2.5% over the closing price of HK\$0.244 per CCHL Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (b) a premium of approximately 16.3% over the closing price of HK\$0.215 per CCHL Share as quoted on the Stock Exchange on the Last Trading Day;
- (c) a premium of approximately 16.3% over the average closing price of approximately HK\$0.215 per CCHL Share based on the daily closing prices as quoted on the Stock Exchange over the 10 trading days up to and including the Last Trading Day;
- (d) a premium of approximately 23.8% over the average closing price of approximately HK\$0.202 per CCHL Share based on the daily closing prices as quoted on the Stock Exchange over the 30 trading days up to and including the Last Trading Day;
- (e) a premium of approximately 37.4% over the average closing price of approximately HK\$0.182 per CCHL Share based on the daily closing prices as quoted on the Stock Exchange over the 60 trading days up to and including the Last Trading Day;
- (f) a discount of approximately 18.6% to the audited consolidated net asset value per CCHL Share of HK\$0.307 as at 31st March, 2003;



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## EXPLANATORY STATEMENT

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- (g) a discount of approximately 21.1% to the unaudited condensed consolidated net asset value per CCHL Share of HK\$0.317 as at 30th September, 2003; and
- (h) a discount of approximately 21.1% to the pro forma adjusted net tangible asset value per CCHL Share as set out in Appendix I to this document.

Historical price information on the CCHL Shares is set out in Appendix II to this document.

### **Net tangible assets**

As at 31st March, 2003, the audited consolidated net tangible assets of the CCHL Group amounted to approximately HK\$76.4 million, or approximately HK\$0.307 per CCHL Share. The Cancellation Price represents a discount of approximately 18.6% to such audited consolidated net tangible asset value per CCHL Share.

The unaudited pro forma adjusted consolidated net tangible assets of the CCHL Group as calculated in Appendix I to this document are approximately HK\$78.8 million, equivalent to approximately HK\$0.317 per CCHL Share. The Cancellation Price represents a discount of approximately 21.1% to such unaudited adjusted consolidated net tangible asset value per CCHL Share. The statement of the unaudited adjusted consolidated net tangible assets of the CCHL Group is set out in Appendix I to this document.

### **Earnings**

The CCHL Group's audited consolidated profit attributable to the CCHL Shareholders for the year ended 31st March, 2003 was approximately HK\$7.4 million, representing earnings of approximately HK\$0.03 per CCHL Share. The CCHL Group's unaudited consolidated profit attributable to the CCHL Shareholders for the six months ended 30th September, 2003 was approximately HK\$2.43 million, representing earnings of approximately HK\$0.0098 per CCHL Share. The Cancellation Price thus represents approximately 8.33 times and 25.5 times the earnings per CCHL Share for the year ended 31st March, 2003 and for the six months ended 30th September, 2003 respectively.

### **Dividends**

No dividends have been declared in the past five years. The CCHL Board has confirmed that it has no intention to declare a dividend in respect of the CCHL Shares prior to the Effective Date.

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## EXPLANATORY STATEMENT

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### BACKGROUND TO, AND REASONS FOR, THE PROPOSAL

CCHL Shares have been trading at a discount to their net asset value and the trading volume of the CCHL Shares has been thin. For the two years' period up to and including the Latest Practicable Date, the CCHL Shares had been traded within the range of HK\$0.052 to HK\$0.247 per CCHL Share with an average closing price at approximately HK\$0.124 per CCHL Share. Such average closing price represented a discount of approximately 59.6% to the audited consolidated net asset value per CCHL Share of HK\$0.307 as at 31st March, 2003 and 60.9% discount to the unaudited condensed consolidated net asset value per CCHL Share of HK\$0.317 as at 30th September, 2003. The average daily trading volume of the CCHL Shares for the two years' period up to and including the Latest Practicable Date was 80,430 CCHL Shares. Such daily trading volume represented about 0.03% of the issued share capital of CCHL as at the Latest Practicable Date. Given the discount of the market price to the net asset value per CCHL Share and the low liquidity of the CCHL Shares as traded on the Stock Exchange, the CCHL Directors are of the opinion that it would be difficult for CCHL to raise additional funds for its business, should CCHL wish to, through the equity market. In fact, since the listing of the CCHL Shares on the Stock Exchange in January 1996, CCHL has not raised funds in the open market, save and except for a subscription agreement entered into with Wealthy Town Investments Limited, a company beneficially owned by one of the directors of a subsidiary of CCHL in 2000.

In addition, it has been difficult for CCHL, given CCHL's small net asset base, to obtain financing and banking facilities to fund its business development and to participate in sizeable construction projects. After successful implementation of the Proposal, CCHL will be wholly owned by CIHL which is in a position to give full financial support to CCHL in terms of future business development. Upon completion of the Proposal, CCHL will become part of the CIHL Group with a substantial asset base. CCHL will then be better equipped to tender for sizeable construction projects as the economy, particularly the property market, improves.

The Proposal would also result in the elimination of all connected transactions between CCHL and CIHL and in turn streamline the administrative, regulatory and compliance obligations of the CIHL Group.

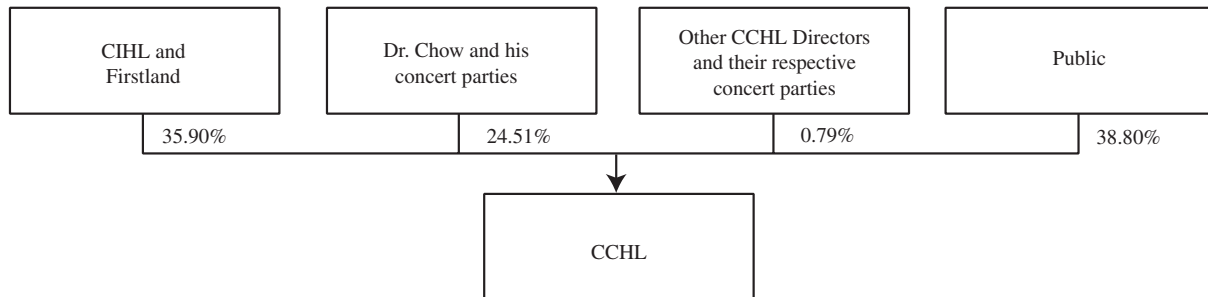
Taking into account the above-mentioned factors, the CCHL Directors consider that the Proposal is in the interests of CCHL Shareholders.

# EXPLANATORY STATEMENT

## INFORMATION RELATING TO THE CCHL GROUP

### Business

The chart below illustrates the shareholding structure of CCHL as at the Latest Practicable Date:



The CCHL Group is principally engaged in building construction, building maintenance and civil engineering in Hong Kong.

### Historical financial information

A summary of the audited consolidated results of the CCHL Group for each of the two years ended 31st March, 2003, and the unaudited consolidated results of the CCHL Group for the six months ended 30th September, 2003 is set out below:

	<b>Six months ended</b>		<b>Year ended 31st March,</b>	
	<b>30th September,</b>		<b>2003</b>	<b>2002</b>
	<b>2003</b>		<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	151,002		225,498	526,927
Profit from operations	5,381		18,043	6,514
Profit before taxation	3,907		19,231	7,376
Profit after tax but before minority interest	2,457		7,604	6,850
Profit attributable to CCHL Shareholders	2,434		7,418	6,723

### Net tangible asset

As at 31st March, 2003, the audited consolidated net tangible asset value of the CCHL Group was approximately HK\$76.4 million, representing HK\$0.307 per CCHL Share (based on 249,000,000 CCHL Shares in issue as at the Latest Practicable Date).

The unaudited pro forma adjusted consolidated net tangible asset value of the CCHL Group as set out in Appendix I to this document were approximately HK\$78.8 million, or approximately HK\$0.317 per CCHL Share (based on 249,000,000 CCHL Shares in issue as at the Latest Practicable Date). Your attention is drawn to Appendix I to this document which sets out financial information in respect of the CCHL Group.

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## **EXPLANATORY STATEMENT**

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### **Dividend**

No dividends have been declared in the past five years. The CCHL Board has confirmed that it has no intention to declare a dividend in respect of the CCHL Shares prior to the Effective Date.

### **Liquidity and financial resources**

CCHL Group had no indebtedness as at 30th November, 2003. The bank balance and cash of the CCHL Group as at 30th November, 2003 was approximately HK\$122.8 million which represented an increase of approximately HK\$64.6 million as compared to HK\$58.2 million as at 31st March, 2003. The increase in the bank balance and cash was mainly due to the effort of the CCHL Group in collecting the outstanding trade debts.

### **FUTURE INTENTIONS OF CIHL ON CCHL GROUP**

Upon the Scheme becoming effective, all the Scheme Shares will be cancelled and extinguished. CCHL will be wholly owned by CIHL. CCHL will apply to the Stock Exchange for the withdrawal of the listing of the CCHL Shares on the Stock Exchange immediately after the Scheme becoming effective. The Scheme will lapse if it does not become effective on or before 31st March, 2004 or such later date as CIHL and CCHL may agree or as the Supreme Court of Bermuda may direct, and the Scheme Shareholders will be notified by way of a press announcement accordingly.

It is the intention of CIHL to maintain the existing business of the CCHL Group upon the successful privatisation of CCHL. CIHL has no intention to introduce any major changes in the business, nor has CIHL had any intention to redeploy the fixed assets of CCHL or to make any changes to the continued employment of the employees of CCHL Group. CIHL has no intention to seek a listing of CCHL Shares on any stock exchange in the foreseeable future.

### **INFORMATION RELATING TO CIHL GROUP**

CIHL is an investment holding company. CIHL, through its subsidiaries, is principally engaged in marketing, installation and maintenance of lifts and escalators, curtain walls and aluminium windows, air-conditioning systems, electrical and mechanical systems, power equipment and industrial equipment; environmental engineering; supply and installation of building materials and equipment; sale, servicing and leasing of automobiles; property development, investment and management; hotel investment and management; insurance underwriting and brokerage; provision of a wide range of voice and data communication equipment and services, system integrated IT solutions; and sale, distribution and servicing of business machines.

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## EXPLANATORY STATEMENT

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The table below sets out in detail the shareholding structure of CIHL as at the Lastest Practicable Date:

	<b>Number of CIHL Shares</b>	<b>(%)</b>
Dr. Chow and his concert parties	151,739,351	55.04
Mr. Kuok and his concert parties	98,216	0.04
Mr. Tam and his concert parties	201,488	0.07
Mr. Fung Pak Kwan and his concert parties	91,290	0.03
Mr. Kan Ka Hon and his concert parties	<u>29,040</u>	<u>0.01</u>
Subtotal of CIHL Shares held by CIHL Directors and their respective concert parties	152,159,385	55.19
Public	<u>123,549,013</u>	<u>44.81</u>
	<u><u>275,708,398</u></u>	<u><u>100.00</u></u>

### SHARE CERTIFICATES, DEALINGS AND LISTING

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

Upon the approval of the Scheme by the CCHL Independent Shareholders at the Court Meeting, the passing of the special resolution to approve and give effect to the Scheme at the Special General Meeting and the sanction of the Scheme by the Supreme Court, CCHL will apply to the Stock Exchange for the withdrawal of the listing of the CCHL Shares. Dealings in the CCHL Shares on the Stock Exchange are expected to cease after 4:00 p.m. on Monday, 2nd February, 2004, and listing of the CCHL Shares on the Stock Exchange are expected to be withdrawn at 9:30 a.m. on Monday, 9th February, 2004.

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

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

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## **EXPLANATORY STATEMENT**

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### **REGISTRATION AND PAYMENT**

In the event the Scheme is approved at the Court Meeting and the Special General Meeting, it is proposed that the register of members of CCHL will be closed after 4:30 p.m. on Thursday, 5th February, 2004, (or such other date as may be notified to the CCHL Shareholders by way of a press announcement) in order to establish entitlements under the Scheme. Scheme Shareholders should ensure that the relevant transfer documentation for their Shares are lodged with the branch registrar of CCHL, Standard Registrars Limited for registration before the register of members of CCHL is closed. Upon the Scheme becoming effective, distributions of entitlements under the Scheme will be made to the Scheme Shareholders whose names appear on the register of members of CCHL on the Record Date. Settlement of the cash entitlements to which any Scheme Shareholder is entitled under the Scheme will be implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which CIHL may otherwise be, or claim to be, entitled against such Scheme Shareholder.

Assuming that the Scheme becomes effective on Friday, 6th February, 2004 (Bermuda time), cheques for cash entitlements under the Scheme are expected to be despatched on or before Monday, 16th February, 2004. In the absence of any specific instructions to the contrary received in writing by the branch registrar of CCHL, namely Standard Registrar Limited, cheques will be sent to the persons entitled thereto at their respective addresses or, in the case of joint holders, to the registered address of that joint holder whose name stands first in such register in respect of the joint holding. All such cheques will be sent at the risk of the persons entitled thereto and neither CIHL nor CCHL will be liable for any loss or delay in transmission.

On the day being six calendar months after the posting of such cheques, CIHL shall have the right to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed, and shall place all monies represented thereby in a deposit account in CCHL's name with a licensed bank in Hong Kong selected by CCHL. CCHL shall hold such monies until the expiry of six years from the Effective Date and shall prior to such date make payments thereout of the sums (together with interest thereon in accordance with clause 3(e) of the Scheme) payable pursuant to clause 2 of the Scheme to persons who satisfy CCHL that they are respectively entitled thereto and the cheques referred to in clause 3(a) of the Scheme of which they are payees that have not been cashed.

On the expiry of six years from the Effective Date, CIHL shall be released from any further obligation to make any payments under the Scheme and CCHL shall thereafter transfer to CIHL the balance (if any) of the sums then standing to the credit of the deposit account referred to in clause 3(e) of the Scheme, including accrued interest subject, if applicable, to any deduction required by law and the deduction of any expenses.

### **OVERSEAS CCHL SHAREHOLDERS**

The communication of the Proposal to persons not resident in Hong Kong may be subject to the laws of the relevant jurisdictions. Such persons should inform themselves about and observe any applicable legal or regulatory requirements. It is the responsibility of any overseas CCHL Shareholders wishing to exercise their rights in relation to the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

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## EXPLANATORY STATEMENT

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### TAXATION

Scheme Shareholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the Proposal and, in particular, whether the receipt of the Cancellation Price would make such Scheme Shareholders liable to taxation in Hong Kong or in other jurisdictions, as the case may be.

### MEETINGS

The Supreme Court has directed that the Court Meeting be held for the purpose of considering and, if thought fit, passing a resolution to approve the Scheme, with or without modification. In so far as the statutory requirement for the sanction of the Scheme by the Supreme Court is concerned, a resolution for the approval of the Scheme will be deemed to have been passed if a majority in number representing three-fourths in value of the CCHL Shares held by the CCHL Independent Shareholders present and voting either in person or by proxy at the Court Meeting vote in favour of the Scheme. Under Rule 2.10 of the Takeovers Code, however, such a resolution will only be considered to have been passed if (i) the Scheme is approved by at least 75% of the votes attaching to the CCHL Shares of the CCHL Independent Shareholders that are cast either in person or by proxy at the Court Meeting; and (ii) the number of votes cast against the resolution at the Court Meeting is not more than 10% of all the CCHL Shares held by all of the CCHL Independent Shareholders. Based on 96,618,692 CCHL Shares presently held by the CCHL Independent Shareholders, 10% of such CCHL Shares amount to 9,661,869 CCHL Shares.

Immediately following the Court Meeting, the Special General Meeting will be held for the purpose of considering and, if thought fit, passing a special resolution to approve and give effect to the Scheme. CIHL and Firstland will not vote at the Court Meeting and the CCHL Shares held by CIHL and Firstland will not form part of the Scheme Shares. Dr. Chow, Mr. Kuok and Mr. Tam and their respective concert parties will not be counted in the quorum and will abstain from voting on the Proposal at the Court Meeting but the CCHL Shares that they hold will form part of the Scheme Shares. CIHL, Firstland, Dr. Chow, Mr. Kuok and Mr. Tam have indicated that if the Proposal is approved at the Court Meeting, they will vote or will procure the voting of their beneficial interests in CCHL in favour of the special resolution to be proposed at the Special General Meeting to be convened following the Court Meeting to approve and give effect to the Proposal (including the cancellation of the Scheme Shares and the reduction of the authorised and issued share capital of CCHL).

Notice of the Court Meeting is set out on pages 91 to 92 of this document. The Court Meeting will be held at 9:15 a.m. on Friday, 16th January, 2004 at 22/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong.

A copy of the notice of the Special General Meeting is set out on pages 93 to 94 of this document. The Special General Meeting will be held at 9:30 a.m. on Friday, 16th January, 2004 at 22/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong.

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## **EXPLANATORY STATEMENT**

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### **ACTION TO BE TAKEN BY CCHL SHAREHOLDERS**

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

Whether or not you are able to attend the Court Meeting and/or the Special General Meeting or any of them, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and also the enclosed white form of proxy in respect of Special General Meeting, in accordance with the instructions printed thereon, and to lodge them with the branch share registrar of CCHL in Hong Kong, namely Standard Registrars Limited, situate at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. In order to be valid, the pink form of proxy for use at the Court Meeting should be lodged not later than 9:15 a.m. on Wednesday, 14th January, 2004 and the white form of proxy for use at the Special General Meeting should be lodged not later than 9:30 a.m. on Wednesday, 14th January, 2004 for the purpose of the respective Meetings. The completion and return of a form of proxy for the Court Meeting or the Special General Meeting will not preclude you from attending and voting in person at the relevant meeting. In such event, the returned form of proxy will be deemed to have been revoked.

An announcement will be made by CCHL in relation to the results of the Court Meeting and the Special General Meeting. In addition, an announcement will be made on the results of the hearing of the petition to sanction the Scheme by the Supreme Court and, if the Scheme is sanctioned, the last date of dealings in the Shares on the Stock Exchange, the Record Date, the Effective Date and the date of withdrawal of the listing of the Shares on the Hong Kong Stock Exchange. Based on the current timetable, the aforesaid announcement will be issued on or about Monday, 19th January, 2004, with the last date of dealings in CCHL Shares on the Stock Exchange being Monday, 2nd February, 2004 and the Record Date being Thursday, 5th February, 2004.

### **RECOMMENDATIONS**

The CCHL Independent Board Committee, having considered the terms of the Proposal and taken into account the opinion of Quam, in particular, the factors, reasons and recommendations as set out in the letter from Quam on pages 15 to 26 of this document, considers that the terms of the Proposal taken as a whole to be fair and reasonable in so far as the CCHL Independent Shareholders are concerned. Accordingly, the CCHL Independent Board Committee recommends the CCHL Independent Shareholders to vote in favour of the resolution to approve the Scheme at the Court Meeting and to vote in favour of the special resolution to approve and give effect to the Scheme at the Special General Meeting. The letter from the CCHL Independent Board Committee is set out on page 14 of this document.

### **FURTHER INFORMATION**

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



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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

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### 1. SHARE CAPITAL

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

<i>Authorised:</i>	<i>HK\$</i>
<u>600,000,000</u> CCHL Shares of HK\$0.10 each	<u>60,000,000</u>
<i>Issued and fully paid:</i>	
<u>249,000,000</u> CCHL Shares of HK\$0.10 each	<u>24,900,000</u>

All of the CCHL Shares currently in issue rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and capital. No CCHL Shares have been issued since 31st March, 2003 (the date to which the latest audited financial statements of the CCHL Group were made up) up to the Latest Practicable Date.

CCHL Shares are listed on the Stock Exchange and none of the securities of CCHL are listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

#### Share Option Scheme

The share option scheme (the “New Scheme”) was adopted by the CCHL Shareholders pursuant to a resolution passed on 20th September, 2002 for the primary purpose of providing the participants with the opportunity to acquire proprietary interests in CCHL and to encourage participants to work towards enhancing the value of CCHL and the CCHL Shares for the benefit of CCHL and the CCHL Shareholders as a whole. The CCHL Scheme will expire on 19th September, 2012.

The total number of the CCHL Shares in respect of which options may be granted under the New Scheme and any other share option schemes is not permitted to exceed 10% of the CCHL Shares in issue at the date of CCHL Shareholders’ approval of the New Scheme (the “Scheme Mandate Limit”) or, if such 10% limit is refreshed, at the date of the CCHL Shareholders’ approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of the CCHL Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes, must not exceed 30% of the total number of the CCHL Shares in issue from time to time. The number of CCHL Shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the CCHL Shares then in issue, without prior approval from the CCHL Shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder or any independent non-executive director or any of their respective associates would result in the shares of CCHL issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the CCHL issued share capital and with a value in excess of HK\$5,000,000 in the 12-month period up to the date of grant must be approved in advance by CCHL Shareholders.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

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Options granted must be taken up within 30 days from the date of grant, upon payment of HK\$1 per option. An option may be exercised in accordance with the terms of the New Scheme at any time during the effective period of the New Scheme to be notified by the board of directors which shall not be later than 10 years from the date of grant. The exercise price is determined by the CCHL Directors, and will not be less than the highest of the closing price of the CCHL Share on the date of grant, the average closing price of the CCHL Share on the Stock Exchange for the five business days immediately preceding the date of grant, and the nominal value.

As at the Latest Practicable Date, no options were granted under the New Scheme.

Save as disclosed above, there are no outstanding options, warrants or convertible securities in CCHL as at the Latest Practicable Date.

### 2. THREE-YEAR FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results of the CCHL Group for each of the last three financial years ended:

	31st March,		
	2003	2002	2001
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Turnover	225.5	527	1,226
Profit/(Loss) from operations	18.0	6.5	(30.0)
Profit/(Loss) before taxation	19.2	7.4	(27.2)
Taxation	(11.6)	(0.5)	(0.5)
Profit/(Loss) after taxation			
but before minority interests	7.6	6.9	(27.7)
Minority interests	(0.2)	(0.1)	(0.1)
Profit/(Loss) for the year attributable to the CCHL Shareholders	7.4	6.7	(27.6)
Dividends	–	–	–
Earnings/(Loss) per CCHL Share (HK cents)	3.0	2.7	(11.66)

No extraordinary or exceptional item was recorded during the three years ended 31st March, 2003.

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP**

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**3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CCHL FOR THE YEAR ENDED 31ST MARCH, 2003**

The following is the reproduction of the audited financial statements of CCHL contained on pages 18 to 40 of the CCHL's 2002/2003 annual report.

**“CONSOLIDATED INCOME STATEMENT**

*For the year ended 31st March, 2003*

		<b>2003</b>	<b>2002</b>
	<i>NOTES</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4	225,498	526,927
Cost of sales		<u>(182,487)</u>	<u>(505,940)</u>
Gross profit		43,011	20,987
Other operating income	5	1,808	4,596
Administrative expenses		(25,964)	(18,160)
Other operating expenses		<u>(812)</u>	<u>(909)</u>
Profit from operations	6	18,043	6,514
Finance costs	7	<u>(15)</u>	<u>(820)</u>
		18,028	5,694
Share of results of an associate		1,946	2,098
Share of results of jointly controlled entities		<u>(743)</u>	<u>(416)</u>
Profit before taxation		19,231	7,376
Taxation	8	<u>(11,627)</u>	<u>(526)</u>
Profit before minority interest		7,604	6,850
Minority interest		<u>(186)</u>	<u>(127)</u>
Net profit for the year		<u><u>7,418</u></u>	<u><u>6,723</u></u>
Earnings per share	9		
Basic and diluted		<u><u>2.98 cents</u></u>	<u><u>2.70 cents</u></u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### CONSOLIDATED BALANCE SHEET

At 31st March, 2003

	<i>NOTES</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	<i>10</i>	11,675	14,059
Interest in an associate	<i>12</i>	6,937	6,610
Interests in jointly controlled entities	<i>13</i>	8,531	9,274
		<u>27,143</u>	<u>29,943</u>
<b>Current assets</b>			
Amounts due from customers for contract work	<i>14</i>	160,594	211,841
Trade and other debtors, deposits and prepayments	<i>15</i>	272,755	363,228
Retention money receivable		57,651	78,676
Investment in securities	<i>16</i>	47,241	–
Bank balances and cash		58,235	55,875
		<u>596,476</u>	<u>709,620</u>
<b>Current liabilities</b>			
Amounts due to customers for contract work	<i>14</i>	3,619	13,555
Creditors, deposits and accruals	<i>17</i>	446,429	537,996
Retention money payable		88,751	118,477
Tax payable		7,217	–
Obligations under finance leases	<i>18</i>	–	60
Unsecured bank overdraft		–	3
		<u>546,016</u>	<u>670,091</u>
Net current assets		<u>50,460</u>	<u>39,529</u>
Total assets less current liabilities		<u>77,603</u>	<u>69,472</u>
<b>Non-current liability</b>			
Deferred taxation	<i>23</i>	527	–
Minority interest		678	492
		<u>76,398</u>	<u>68,980</u>
<b>Capital and reserves</b>			
Share capital	<i>20</i>	24,900	24,900
Reserves	<i>21</i>	51,498	44,080
		<u>76,398</u>	<u>68,980</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### BALANCE SHEET

At 31st March, 2003

	<i>NOTES</i>	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Non-current asset			
Interests in subsidiaries	<i>11</i>	<u>526,620</u>	<u>559,014</u>
Current assets			
Trade and other debtors, deposits and prepayments		187	208
Bank balances and cash		<u>67</u>	<u>84</u>
		<u>254</u>	<u>292</u>
Current liabilities			
Creditors, deposits and accruals		<u>1,412</u>	<u>943</u>
Net current liabilities		<u>(1,158)</u>	<u>(651)</u>
Total assets less current liabilities		525,462	558,363
Non-current liability			
Amounts due to subsidiaries	<i>19</i>	<u>(466,854)</u>	<u>(498,467)</u>
		<u>58,608</u>	<u>59,896</u>
Capital and reserves			
Share capital	<i>20</i>	24,900	24,900
Reserves	<i>21</i>	<u>33,708</u>	<u>34,996</u>
		<u>58,608</u>	<u>59,896</u>

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP**

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**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY***For the year ended 31st March, 2003*

	<b>Total equity</b> <i>HK\$'000</i>
At 1st April, 2001	62,257
Net profit for the year	<u>6,723</u>
At 31st March, 2002	68,980
Net profit for the year	<u>7,418</u>
At 31st March, 2003	<u><u>76,398</u></u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March, 2003

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit from operations	18,043	6,514
Adjustments for:		
Interest income	(1,038)	(749)
Unrealised gain on other investment	(429)	–
Depreciation	805	1,209
Loss on disposal of property, plant and equipment	97	55
Allowance for doubtful debts	13,159	–
	<hr/>	<hr/>
Operating cash flow before movements in working capital	30,637	7,029
Decrease (increase) in amounts due from customers for contract work	52,251	(34,904)
Decrease in inventories	–	5,340
Decrease in trade and other debtors, deposits and prepayments	77,290	243,116
Decrease in retention money receivable	21,025	109,899
Decrease in amounts due to customers for contract work	(9,956)	(184,808)
Decrease in creditors, deposits and accruals	(91,567)	(18,687)
Decrease in bills payable	–	(114)
Decrease in retention money payable	(29,726)	(60,197)
	<hr/>	<hr/>
Cash generated from operations	49,954	66,674
Interest paid	(2)	(757)
Interest on obligations under finance leases paid	(13)	(81)
Hong Kong Profits Tax (paid) refunded	(3,514)	75
	<hr/>	<hr/>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>46,425</b>	<b>65,911</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of other investment	(46,812)	–
Purchase of property, plant and equipment	(179)	(182)
Dividend received from an associate	1,250	1,750
Interest received	1,062	713
Proceeds from disposal of property, plant and equipment	677	471
	<hr/>	<hr/>
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(44,002)</b>	<b>2,752</b>
<b>FINANCING ACTIVITIES</b>		
Repayment of bank loans	–	(32,000)
Repayment of obligations under finance leases	(60)	(359)
	<hr/>	<hr/>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(60)</b>	<b>(32,359)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,363</b>	<b>36,304</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>55,872</b>	<b>19,568</b>
	<hr/>	<hr/>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>58,235</b>	<b>55,872</b>
	<hr/> <hr/>	<hr/> <hr/>
Being:		
Bank balances and cash	58,235	55,875
Bank overdraft	–	(3)
	<hr/>	<hr/>
	<b>58,235</b>	<b>55,872</b>
	<hr/> <hr/>	<hr/> <hr/>

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# APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

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## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31st March, 2003*

### 1. General

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investment holding while its subsidiaries are engaged in building construction, building maintenance and civil engineering.

### 2. Adoption of Statements of Standard Accounting Practice

In the current year, the Group has adopted a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants. The adoption of these standards has resulted in a change in the format of presentation of cash flow statements and the introduction of the statement of changes in equity.

The adoption of these new and revised standards has had no significant effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been required.

#### *Cash flow statements*

In the current year, the Group has adopted SSAP 15 (Revised) “Cash Flow Statements”. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid and interest and dividends received, which were previously presented under a separate heading, are classified as operating and investing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities.

#### *Employee benefits*

In the current year, the Group has adopted SSAP 34 “Employee Benefits”, which introduces measurement rules for employee benefits, including retirement benefit plans. As the Group participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any significant impact on the financial statements.

### 3. Principal Accounting Policies

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment in securities.

The principal accounting policies, which have been adopted by the Group in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong, are as follows:

#### (a) *Basis of consolidation*

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year and also incorporate the Group’s interests in associates and jointly controlled entities on the basis set out below.

The results of subsidiaries, associates or jointly controlled entities acquired or disposed of during the year are included in the consolidated income statement as from their respective dates of acquisition or up to the dates of disposal as the case may be.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

#### (b) *Goodwill*

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary, an associate or jointly controlled entity at the date of acquisition.



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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

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### NOTES TO THE FINANCIAL STATEMENTS *(continued)*

*For the year ended 31st March, 2003*

#### 3. Principal Accounting Policies *(continued)*

*(b) Goodwill (continued)*

Goodwill arising on acquisitions prior to 1st April, 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or jointly controlled entity, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions on or after 1st April, 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of an associate or jointly controlled entity is included within the carrying amount of the associate or the jointly controlled entity. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, an associate or jointly controlled entity, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

*(c) Subsidiaries*

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable during the year.

*(d) Associate*

The consolidated income statement includes the Group's share of the post-acquisition results of its associate for the year. In the consolidated balance sheet, interest in associate is stated at the Group's share of the net assets of the associate.

When the Group transacts with its associate, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred.

*(e) Jointly controlled entities*

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities less any identified impairment loss. The Group's share of the post-acquisition results of jointly controlled entities is included in the consolidated income statement.

When the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant joint venture, except where unrealised losses provide evidence of an impairment of the assets transferred.

*(f) Construction contracts*

When the outcome of a building construction, building maintenance and civil engineering contract can be estimated reliably, contract costs are recognised to the consolidated income statement by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the value of work carried out during the year.

When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profits less recognised losses and progress billings, and are presented in the balance sheet as "Amounts due from customers for contract work" (as an asset) or "Amounts due to customers for contract work" (as a liability), as applicable. Amounts billed for work performed on a contract but not yet paid by the customers are included in the balance sheet under "Trade and other debtors, deposits and prepayments".

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

## NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31st March, 2003

### 3. Principal Accounting Policies (continued)

(g) *Inventories*

Inventories represent raw materials of rocks are stated at the lower of cost and net realisable value. Cost, which comprises all cost of purchases and other costs incurred in bring the inventories to their present location, is calculated on the weighted average basis. Net realisable value represents the expected selling price less costs to be incurred in selling and distribution.

(h) *Property, plant and equipment*

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

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

Depreciation is provided on the cost of property, plant and equipment on a reducing balance basis at the following rates per annum:

	<b>Barges and dredgers</b>	<b>Tower cranes</b>	<b>Computer equipment</b>	<b>Others</b>
Initial charge upon purchase	10%	20%	20%	20%
Annual charge	10%	15%	40%	20%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

(i) *Revenue recognition*

When the outcome of a building construction, building maintenance and civil engineering contract can be estimated reliably, revenue is recognised based on the percentage of completion, measured by reference to the value of work carried out during the year.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable.

Interest income is accrued on a time proportion basis by reference to the principal outstanding and at the interest rates applicable.

Building services income is recognised when services are rendered.

(j) *Finance leases*

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair values of the assets acquired, are charged to the consolidated income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the consolidated income statement on a straight-line basis over the relevant lease terms.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

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### NOTES TO THE FINANCIAL STATEMENTS *(continued)*

*For the year ended 31st March, 2003*

#### 3. Principal Accounting Policies *(continued)*

*(k) Impairment*

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

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

*(l) Investments in securities*

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

Investments are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

*(m) Foreign currency translation*

The accounting records of the Group, its associates and jointly controlled entities are maintained in Hong Kong dollars. Transactions in foreign currencies are initially recorded at the rates of exchange prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-translated into Hong Kong dollars at the rates of exchange prevailing at the balance sheet date. Gains and losses arising on exchange are included in net profit or loss for the period.

*(n) Taxation*

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

*(o) Retirement benefit schemes*

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution retirement benefit plans.

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31st March, 2003

### 4. Segment Information

For management purposes, the Group is currently organised into two operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Turnover and segment information for the year ended 31st March, 2003 is presented below:

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
TURNOVER			
External sales	<u>81,615</u>	<u>143,883</u>	<u>225,498</u>
RESULT			
Segment result	<u>52,355</u>	<u>(34,275)</u>	18,080
Unallocated corporate expenses			(1,504)
Interest income			1,038
Unrealised gain on other investment			<u>429</u>
Profit from operations			18,043
Interest expenses			(15)
Share of results of an associate			1,946
Share of results of jointly controlled entities	(199)	(544)	<u>(743)</u>
Profit before taxation			19,231
Taxation			<u>(11,627)</u>
Profit before minority interest			<u>7,604</u>

All activities of the Group were carried out in Hong Kong and all assets are located in Hong Kong.

### BALANCE SHEET

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
ASSETS			
Segment assets	255,053	247,435	502,488
Interest in an associate			6,937
Interests in jointly controlled entities	4,603	3,928	8,531
Unallocated corporate assets			<u>105,663</u>
Consolidated total assets			<u>623,619</u>
LIABILITIES			
Segment liabilities	450,401	86,962	537,363
Unallocated corporate liabilities			<u>9,180</u>
Consolidated total liabilities			<u>546,543</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### NOTES TO THE FINANCIAL STATEMENTS *(continued)*

*For the year ended 31st March, 2003*

#### 4. Segment Information *(continued)*

##### OTHER INFORMATION

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
Allowance for doubtful debts	12,991	168	13,159
Capital additions	127	52	179
Depreciation and amortisation	957	1,040	1,997

Turnover and segment information for the year ended 31st March, 2002 is presented below:

	<b>Building construction and maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
<b>TURNOVER</b>			
External sales	<u>397,598</u>	<u>129,329</u>	<u>526,927</u>
<b>RESULT</b>			
Segment result	<u>28,346</u>	<u>(19,708)</u>	8,638
Unallocated corporate expenses			(2,873)
Interest income			<u>749</u>
Profit from operations			6,514
Interest expenses			(820)
Share of results of an associate			2,098
Share of results of jointly controlled entities	(396)	(20)	<u>(416)</u>
Profit before taxation			7,376
Taxation			<u>(526)</u>
Profit before minority interest			<u>6,850</u>

All activities of the Group were carried out in Hong Kong and all assets are located in Hong Kong.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### NOTES TO THE FINANCIAL STATEMENTS *(continued)*

*For the year ended 31st March, 2003*

#### 4. Segment Information *(continued)*

##### BALANCE SHEET

	Building construction and maintenance <i>HK\$'000</i>	Civil engineering <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
<b>ASSETS</b>			
Segment assets	376,663	290,933	667,596
Interest in an associate			6,610
Interests in jointly controlled entities	4,519	4,755	9,274
Unallocated corporate assets			<u>56,083</u>
Consolidated total assets			<u><u>739,563</u></u>
<b>LIABILITIES</b>			
Segment liabilities	589,307	79,748	669,055
Unallocated corporate liabilities			<u>1,036</u>
Consolidated total liabilities			<u><u>670,091</u></u>

##### OTHER INFORMATION

	Building construction and maintenance <i>HK\$'000</i>	Civil engineering <i>HK\$'000</i>	Consolidated total <i>HK\$'000</i>
Capital additions	82	100	182
Depreciation and amortisation	3,011	1,332	4,343

#### 5. Other Operating Income

	<b>2003</b> <i>HK\$'000</i>		<b>2002</b> <i>HK\$'000</i>
Building services income		–	3,000
Interest income		1,038	749
Unrealised gain on other investment		429	–
Others		<u>341</u>	<u>847</u>
		<u><u>1,808</u></u>	<u><u>4,596</u></u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31st March, 2003

#### 6. Profit from Operations

	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	432	458
Allowance for doubtful debts	13,159	–
Depreciation:		
Owned assets	1,981	4,221
Assets held under finance leases	16	122
	1,997	4,343
Less: Amount capitalised to contract work	(1,192)	(3,134)
	805	1,209
Gain on disposal of property, plant and equipment	(230)	–
Less: Amount capitalised to contract work	230	–
	–	–
Loss on disposal of property, plant and equipment	119	627
Less: Amount capitalised to contract work	(22)	(572)
	97	55
Operating lease charges:		
Premises	2,308	2,739
Plant and machinery	45,748	69,784
	48,056	72,523
Less: Amount capitalised to contract work	(45,748)	(69,859)
	2,308	2,664
Staff costs, including directors' emoluments ( <i>Note</i> )	46,715	80,808
Retirement benefits scheme contributions, net of forfeited contributions	1,406	1,056
Less: Amount capitalised to contract work	(29,225)	(54,343)
	18,896	27,521
Interest income	(1,038)	(749)

*Note:* Included in staff costs is an amount of HK\$2,554,000 (2002: HK\$5,495,000) in respect of redundancy payments made to staff.

#### 7. Finance Costs

	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank loans and overdraft wholly repayable within five years	2	739
Finance leases charges	13	81
	15	820
	15	820

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

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### NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31st March, 2003

#### 8. Taxation

	2003 HK\$'000	2002 HK\$'000
Hong Kong Profits Tax charge (credit):		
The Company and subsidiaries		
Current year's provision	10,731	–
Deferred taxation ( <i>Note 23</i> )	<u>527</u>	<u>–</u>
	11,258	–
Associate	369	528
Jointly controlled entities	<u>–</u>	<u>(2)</u>
	<u>11,627</u>	<u>526</u>

Hong Kong Profits Tax is calculated at 16% (2002: 16%) of the estimated assessable profits less available tax relief for tax losses brought forward of each individual company comprising the Group. No provision had been made in the prior year as the assessable profit was wholly absorbed by tax losses brought forward.

Details of the potential deferred tax not accounted for in the year are set out in note 23.

#### 9. Earnings Per Share

The calculation of the basic earnings per share is based on the net profit for the year of HK\$7,418,000 (2002: HK\$6,723,000) and on 249,000,000 (2002: 249,000,000) shares in issue during the year.

The computation of diluted earnings per share for 2002 has not assumed the exercise of the share options outstanding during that year since their exercise price was higher than the fair value per share.

All above options lapsed in prior year.



## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31st March, 2003

#### 10. Property, Plant And Equipment

	Barges and dredgers <i>HK\$'000</i>	Tower cranes <i>HK\$'000</i>	Furniture, fixtures, computer and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Plant, machinery, tools and equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>						
<b>AT COST</b>						
At 1st April, 2002	14,779	13,042	6,693	7,296	9,369	51,179
Additions	–	–	139	40	–	179
Disposals	–	–	(414)	(2,539)	–	(2,953)
	<u>14,779</u>	<u>13,042</u>	<u>6,418</u>	<u>4,797</u>	<u>9,369</u>	<u>48,405</u>
At 31st March, 2003	<u>14,779</u>	<u>13,042</u>	<u>6,418</u>	<u>4,797</u>	<u>9,369</u>	<u>48,405</u>
<b>ACCUMULATED DEPRECIATION</b>						
At 1st April, 2002	8,379	9,104	5,337	5,597	8,703	37,120
Provided for the year	640	591	371	262	133	1,997
Eliminated on disposals	–	–	(311)	(2,076)	–	(2,387)
	<u>9,019</u>	<u>9,695</u>	<u>5,397</u>	<u>3,783</u>	<u>8,836</u>	<u>36,730</u>
At 31st March, 2003	<u>9,019</u>	<u>9,695</u>	<u>5,397</u>	<u>3,783</u>	<u>8,836</u>	<u>36,730</u>
<b>NET BOOK VALUES</b>						
At 31st March, 2003	<u>5,760</u>	<u>3,347</u>	<u>1,021</u>	<u>1,014</u>	<u>533</u>	<u>11,675</u>
At 31st March, 2002	<u>6,400</u>	<u>3,938</u>	<u>1,356</u>	<u>1,699</u>	<u>666</u>	<u>14,059</u>

The carrying amount of the Group's motor vehicles at 31st March, 2002 included HK\$489,000 in respect of assets held under finance leases.

#### 11. Interests in Subsidiaries

	<b>THE COMPANY</b>	
	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Unlisted shares	150,539	150,539
Loans to subsidiaries	170,564	170,564
Amounts due from subsidiaries	275,317	307,711
Impairment loss	(69,800)	(69,800)
	<u>526,620</u>	<u>559,014</u>

Loans to subsidiaries and amounts due from subsidiaries are unsecured, interest free and will not be repaid within the next twelve months from the balance sheet date.

Particulars regarding the subsidiaries of the Company at 31st March, 2003 are set out in note 27.

#### 12. Interest in An Associate

	<b>THE GROUP</b>	
	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Share of net asset of an unlisted associate	<u>6,937</u>	<u>6,610</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31st March, 2003

#### 12. Interest in An Associate *(continued)*

Particulars regarding the associate of the Group at 31st March, 2003 are as follows:

Name of company	Place of incorporation/ operation	Class of shares	Effective % of issued share capital held indirectly	Principal activities
Yue Xiu Concrete Company Limited	Hong Kong	Ordinary shares	25	Supply of ready-mixed concrete

#### 13. Interests in Jointly Controlled Entities

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Share of net assets of jointly controlled entities	<u>8,531</u>	<u>9,274</u>

Particulars regarding the jointly controlled entities of the Group at 31st March, 2003 are set out in note 28.

#### 14. Amounts Due From (To) Customers For Contract Work

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Contracts in progress at the balance sheet date:		
Contract costs incurred to date plus recognised profits less recognised losses	608,373	566,562
Progress billings	<u>(451,398)</u>	<u>(368,276)</u>
	<u>156,975</u>	<u>198,286</u>
Represented by:		
Due from customers for contract work included in current assets	160,594	211,841
Due to customers for contract work included in current liabilities	<u>(3,619)</u>	<u>(13,555)</u>
	<u>156,975</u>	<u>198,286</u>

#### 15. Trade and Other Debtors, Deposits and Prepayments

Interim applications for progress payments in construction contracts are normally on a monthly basis and settled according to contract terms.

Included in trade and other debtors, deposits and prepayments are trade receivables of HK\$165,213,000 (2002: HK\$273,937,000) with an aged analysis as follows:

	THE GROUP	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
0 – 60 days	40,264	105,703
61 – 90 days	4	1,193
More than 90 days	<u>124,945</u>	<u>167,041</u>
	<u>165,213</u>	<u>273,937</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31st March, 2003

#### 16. Investment in Securities

	2003 HK\$'000	2002 HK\$'000
<b>Other investment</b>		
Unlisted investment in mutual fund, at fair value	47,241	–
	<u>47,241</u>	<u>–</u>

#### 17. Creditors, Deposits and Accruals

Included in creditors, deposits and accruals are trade payables of HK\$101,443,000 (2002: HK\$112,159,000) with an aged analysis as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 60 days	48,363	50,247
61 – 90 days	10,650	12,722
More than 90 days	42,430	49,190
	<u>101,443</u>	<u>112,159</u>

#### 18. Obligations Under Finance Leases

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amount payable under finance leases:				
Within one year	–	73	–	60
Less: future finance charges	–	(13)	–	–
Present value of lease obligations	<u>–</u>	<u>60</u>	<u>–</u>	<u>60</u>

The Group leased certain of its motor vehicles under finance leases. The average lease term is 3 years. For the year ended 31st March, 2003, the average effective borrowing rate was 14%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets. The obligations were repaid during the year.

#### 19. Amounts Due to Subsidiaries

The amounts due to subsidiaries are unsecured, interest free and do not have a fixed repayment term. As agreed with the subsidiaries, demand for repayment will not be made within the next twelve months from the balance sheet date and accordingly, the amounts are shown as non-current liability.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

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### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31st March, 2003

#### 20. Share Capital

	Number of ordinary shares of HK\$0.10 each	Nominal value HK\$'000
Authorised:		
At the beginning and end of the year ended 31st March, 2003 and 2002	<u>600,000,000</u>	<u>60,000</u>
Issue and fully paid:		
At the beginning and end of the year ended 31st March, 2003 and 2002	<u>249,000,000</u>	<u>24,900</u>

#### Share Option Scheme

The share option scheme of the Company (the "Old Scheme") for the benefit of the full-time employees of the Company and its subsidiaries was approved and adopted on 28th December, 1995 under which the directors may invite full-time employees, including Executive Directors, to take up options to subscribe for an aggregate of not more than 10% of the total number of shares in issue at a consideration of HK\$1 for each grant. No option may be exercised earlier than six months or later than three and a half years after it has been accepted and no option may be granted after 27th December, 2005 nor to any one person when if exercised in full by that person would result in the total number of shares issued to that person exceeding 25% of the aggregate number of the shares in respect of which the options are granted.

All the options granted had been lapsed in prior year.

The Old Scheme was terminated during the year.

The Company's new share option scheme (the "New Scheme") was adopted by the shareholders pursuant to a resolution passed on 20th September, 2002 for the primary purpose of providing the participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. The New Scheme will expire on 19th September, 2012.

The total number of shares in respect of which options may be granted under the New Scheme and any other schemes is not permitted to exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the New Scheme (the "Scheme Mandate Limit") or, if such 10% limit is refreshed, at the date of shareholders' approval of the renewal of the Scheme Mandate Limit. The maximum aggregate number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes, must not exceed 30% of the total number of shares of the Company in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company then in issue, without prior approval from the Company's shareholders. Each grant of options to any director, chief executive or substantial shareholder must be approved by independent non-executive directors. Where any grant of options to a substantial shareholder or any independent non-executive director or any of their respective associates would result in the shares of the Company issued and to be issued upon exercise of options already granted and to be granted in excess of 0.1% of the Company's issued share capital and with a value in excess of HK\$5,000,000 in the 12-month period up to the date of grant must be approved in advance by the Company's shareholders.

Options granted must be taken up within 30 days from the date of grant, upon payment of HK\$1 per option. An option may be exercised in accordance with the terms of the New Scheme at any time during the effective period of the New Scheme to be notified by the board of directors which shall not be later than 10 years from the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the highest of the closing price of the Company's share on the date of grant, the average closing price of the share on the Stock exchange for the five business days immediately preceding the date of grant, and the nominal value.

During the year ended 31st March, 2003, no options were granted under the New Scheme.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### NOTES TO THE FINANCIAL STATEMENTS *(continued)*

*For the year ended 31st March, 2003*

#### 21. Reserves

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE GROUP</b>					
At 1st April, 2001	1,856	–	56,942	(21,441)	37,357
Net profit for the year	–	–	–	6,723	6,723
At 31st March, 2002	1,856	–	56,942	(14,718)	44,080
Net profit for the year	–	–	–	7,418	7,418
At 31st March, 2003	<u>1,856</u>	<u>–</u>	<u>56,942</u>	<u>(7,300)</u>	<u>51,498</u>
<b>THE COMPANY</b>					
At 1st April, 2001	1,856	106,176	–	(70,702)	37,330
Net loss for the year	–	–	–	(2,334)	(2,334)
At 31st March, 2002	1,856	106,176	–	(73,036)	34,996
Net loss for the year	–	–	–	(1,288)	(1,288)
At 31st March, 2003	<u>1,856</u>	<u>106,176</u>	<u>–</u>	<u>(74,324)</u>	<u>33,708</u>

*Notes:*

- (a) Contributed surplus represents the difference arising between the value of total net assets of subsidiaries, associates and jointly controlled entities acquired and the nominal amount of the Company's shares issued at the time of reorganisation in 1996, adjusted for dividends paid out of the contributed surplus subsequent to the reorganisation. Under the Companies Act of 1981 of Bermuda (as amended), the contributed surplus of the Company is distributable to shareholders. However, a company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:
- (i) the company, or would, after the payment, be, unable to pay its liabilities as they become due; or
  - (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.
- (b) As at 31st March, 2003, the Company's reserves available for distribution to shareholders amounted to HK\$31,852,000 (2002: HK\$33,140,000).
- (c) Reserves of the Group at the balance sheet date include the Group's share of the post-acquisition profits of:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Associate	4,437	4,110
Jointly controlled entities	4,031	4,774
	<u>8,468</u>	<u>8,884</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### NOTES TO THE FINANCIAL STATEMENTS *(continued)*

*For the year ended 31st March, 2003*

#### 22. Emoluments of Directors and Senior Management

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	227	240
	227	240
Other emoluments paid to executive directors:		
Salaries and other benefits	–	463
Retirement benefit scheme contributions	–	21
	–	484
	227	724

Emoluments of the directors fall within the following bands:

	Number of directors	
<b>Bands</b>	<b>2003</b>	<b>2002</b>
Nil – HK\$1,000,000	8	7
	8	7

The emoluments of the five (2002: five) highest paid individuals for the year were as follows:

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Salaries and other benefits	6,166	6,732
Retirement benefit scheme contributions	222	286
	6,388	7,018
	6,388	7,018

Their emoluments fall within the following bands:

	Number of individuals	
<b>Bands</b>	<b>2003</b>	<b>2002</b>
Nil – HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$2,500,001 – HK\$3,000,000	1	–
HK\$3,000,001 – HK\$3,500,000	–	1
	3	5

#### 23. Deferred Taxation

	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Charge for the year and balance at end of the year	527	–
	527	–

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

For the year ended 31st March, 2003

### 23. Deferred Taxation *(continued)*

At the balance sheet date, the major components of deferred tax (liabilities) assets of the Group, provided and unprovided, in the financial statements were as follows:

	Provided		Unprovided	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	(527)	–	(551)	(1,419)
Unutilised tax losses	–	–	37,427	30,390
	<u>(527)</u>	<u>–</u>	<u>36,876</u>	<u>28,971</u>

The amount of the unprovided deferred tax credit (charge) for the year was as follows:

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax effect of timing differences because of:		
Difference between tax allowances and depreciation	868	555
Tax losses arising (utilising)	7,037	(1,180)
	<u>7,905</u>	<u>(625)</u>

No deferred tax asset has been recognised in the financial statements as it is uncertain whether the asset will crystallise in the foreseeable future.

The Company had no material unprovided deferred taxation for the year or at the balance sheet date.

### 24. Pledge of Assets

At 31st March, 2002, the benefits under a construction contract have been pledged to a financial institution as security in connection with the credit facilities granted to the Group. The facilities were released upon the completion of the contract during the year.

### 25. Commitments and Contingent Liabilities

As at the balance sheet date, there were:

- (a) Rentals payable by the Group for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Premises		Plant, barges and dredgers	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,761	1,950	4,216	4,143
In the second to fifth year inclusive	1,128	281	–	–
	<u>2,889</u>	<u>2,231</u>	<u>4,216</u>	<u>4,143</u>

Leases on premises are negotiated for an average term of one to two years with fixed monthly rentals over the terms of the leases.

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

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### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31st March, 2003

#### 25. Commitments and Contingent Liabilities (continued)

- (b) Capital commitments of the Group authorised but not contracted for in respect of:

	2003 HK\$'000	2002 HK\$'000
Acquisition of property, plant and equipment	<u>          –          </u>	<u>          127          </u>

- (c) Guarantees issued by the Company to the extent of approximately HK\$14,975,000 (2002: HK\$39,755,000) and HK\$2,500,000 (2002: HK\$2,500,000) to insurance companies and financial institutions as security in connection with performance bonds for construction contracts undertaken by certain subsidiaries and credit facilities granted to the subsidiaries and a jointly controlled entity, respectively.
- (d) The Group and certain contractors had undertaken to provide guarantees for rectification of defects in favour of a employer in connection with the work performed for a project.

#### 26. Related Party Transactions

Chevalier International Holdings Limited (“CIHL”), a substantial shareholder of the Company, and Lam Woo & Company Limited (“LWCL”), a jointly controlled entity of the Company, and their respective subsidiaries and associates are regarded as related parties for the purpose of Statement of Standard Accounting Practice 20 “Related Party Disclosures” issued by the Hong Kong Society of Accountants. Details of the material transactions between the Group and CIHL and LWCL groups are as follows:

- (a) The Company entered into an agreement with CIHL, under which CIHL shall provide accounting, treasury, electronic data processing, company secretarial and personnel management services to the Group for a term of one year ended on 31st March, 2003 at a management fee calculated at 0.3% of the aggregate turnover of the operating subsidiaries of the Company. The management fee paid to CIHL under this agreement for the year ended 31st March, 2003 amounted to HK\$676,000 (2002: HK\$1,584,000).
- (b) An agreement was made between CIHL and the Company whereby the Group may source electrical and mechanical equipment and building materials from time to time from CIHL group at consideration determined with reference to market prices. Purchases and value of work completed during the year amounted to HK\$9,268,000 (2002: HK\$44,292,000).
- (c) During the year ended 31st March, 2003, the Group paid rentals determined with reference to market rates of HK\$1,896,000 (2002: HK\$2,242,000) to CIHL group for premises occupied by the Group.
- (d) The Group entered into contracts with reference to market rates for civil engineering work and building works with LWCL. A total amount of HK\$7,948,000 (2002: HK\$44,536,000) was received and receivable from LWCL for the work done during the year.
- (e) The Group has maintained insurance policies with a subsidiary of CIHL, including public liability insurance, employees compensation insurance and contractors all risk insurance. The aggregate insurance premium charged by the subsidiary of CIHL during the year at prices determined by the directors with reference to market prices amounted to HK\$1,057,000 (2002: HK\$5,221,000).
- (f) An agreement was made between CIHL group and the Group for drainage works during the year. A total amount of HK\$1,426,000 (2002: Nil) was received and receivable from CIHL group for the work done during the year.
- (g) During the year ended 31st March, 2002, the Group received a lump sum building services fee of HK\$3,000,000 from CIHL group for the services provided by the Group.



## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31st March, 2003

#### 26. Related Party Transactions (continued)

At the balance sheet date, the Group has outstanding balances arising from business transactions with related parties which are unsecured, non-interest bearing and have no fixed terms of repayment, as follows:

	Amounts due from		Amount due to	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
CIHL group	35,486	36,189	11,481	9,771
LWCL	<u>10,661</u>	<u>2,962</u>	<u>-</u>	<u>-</u>

The above balances have been disclosed in the consolidated balance sheet under "Trade and other debtors, deposits and prepayments", "Retention money receivable", "Creditors, deposit and accruals" and "Retention money payable", as appropriate.

#### 27. Subsidiaries

Name of company	Place or country of incorporation/ operation	Class of shares	Issued and paid up capital	Number of shares	Effective % of issued share capital held		Principal activities
					Directly	Indirectly	
Austin Assets Limited	The British Virgin Islands/ Hong Kong	Ordinary	US\$1	1	-	100	Investment holding
CCH (BVI) Limited	The British Virgin Islands/ Hong Kong	Ordinary	US\$50,000	50,000	100	-	Investment holding
Cherson Limited	Hong Kong	Ordinary	HK\$100	100	-	100	Under deregistration
Chevalier (Construction) Company Limited	Hong Kong	Ordinary	HK\$60,500,000	60,500,000	-	99.67	Building construction and maintenance
Chevalier Construction (Hong Kong) Limited	Hong Kong	Ordinary Deferred <i>(note)</i>	HK\$1,000 HK\$10,000	100 1,000	- -	100 -	Building construction
Chevalier (Civil Engineering) Limited	Hong Kong	Ordinary Deferred <i>(note)</i>	HK\$45,837,002 HK\$24,964,002	45,837,002 24,964,002	- -	100 -	Civil engineering
Chevalier Civil Engineering (Hong Kong) Limited	Hong Kong	Ordinary	HK\$100	100	-	100	Civil engineering
Smart Key Limited	Hong Kong	Ordinary	HK\$100	100	-	100	Investment holding

*Note:* The deferred shares practically carry no right to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distribution on winding up.

None of the subsidiaries had issued any debt securities at the balance sheet date.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### NOTES TO THE FINANCIAL STATEMENTS *(continued)*

*For the year ended 31st March, 2003*

#### 28. Jointly Controlled Entities

Name of company	Form of business structure	Place of incorporation/ operation	Class of shares	Effective % of share capital/ ownership held indirectly	Principal activities
Lam Woo & Company Limited	Incorporated	Hong Kong	Ordinary	50	Civil engineering
Lam Woo Construction Limited	Incorporated	Hong Kong	Ordinary	50	Building maintenance
Lam Woo/Chevalier Joint Venture	Joint Venture	Hong Kong	–	30	Civil engineering

The Group's entitlement to share in the results of its jointly controlled entities is in proportion to its ownership interest."

#### 4. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2003

The following is the reproduction of the unaudited condensed consolidated financial statements of CCHL for the six months ended 30th September, 2003.

##### “CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30th September, 2003*

	Note	Unaudited Six months ended 30th September	
		2003 HK\$'000	2002 HK\$'000
Turnover	2	151,002	87,235
Cost of sales		(142,567)	(79,568)
Gross profit		8,435	7,667
Other revenue		1,568	718
Administrative expenses		(3,352)	(4,332)
Other operating expenses		(1,270)	(327)
Profit from operations	3	5,381	3,726
Finance costs		–	(14)
Share of results of an associate		588	1,028
Share of results of jointly controlled entities		(2,062)	(363)
Profit before taxation		3,907	4,377
Taxation	4	(1,450)	(165)
Profit before minority interest		2,457	4,212
Minority interest		(23)	25
Net profit for the period		<u>2,434</u>	<u>4,237</u>
Interim dividends		<u>–</u>	<u>–</u>
Earnings per share			
Basic	5	<u>0.98 cents</u>	<u>1.70 cents</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### CONDENSED CONSOLIDATED BALANCE SHEET

*As at 30th September, 2003*

		Unaudited 30th September 2003 HK\$'000	Audited 31st March 2003 HK\$'000
Non-current assets			
Property, plant and equipment		11,286	11,675
Interests in an associate		7,422	6,937
Interests in jointly controlled entities		11,969	8,531
		30,677	27,143
Current assets			
Amounts due from customers for contract work		135,101	160,594
Trade and other debtors, deposits and prepayments	6	154,896	272,755
Retention money receivable		39,412	57,651
Investments in securities	7	31,086	47,241
Bank balances and cash		133,226	58,235
		493,721	596,476
Current liabilities			
Amounts due to customers for contract work		7,421	3,619
Creditors, deposits and accruals	8	360,111	446,429
Retention money payable		69,413	88,751
Tax provision		7,393	7,217
		444,338	546,016
Net current assets		49,383	50,460
Total assets less current liabilities		80,060	77,603
Non-current liability			
Deferred taxation		527	527
Minority interest		701	678
		78,832	76,398
Capital and reserves			
Share capital		24,900	24,900
Reserves		53,932	51,498
		78,832	76,398

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP**

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

*For the six months ended 30th September, 2003*

	<b>Share Capital</b> <i>HK\$'000</i>	<b>Share Premium</b> <i>HK\$'000</i>	<b>Capital Reserve</b> <i>HK\$'000</i>	<b>Retained Profits (Deficit)</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Balance at 1st April 2003	24,900	1,856	56,942	(7,300)	76,398
Net profit for the six months ended 30th September, 2003	—	—	—	2,434	2,434
Balance at 30th September 2003	<u>24,900</u>	<u>1,856</u>	<u>56,942</u>	<u>(4,866)</u>	<u>78,832</u>
Balance at 1st April 2002	24,900	1,856	56,942	(14,718)	68,980
Net profit for the six months ended 30th September, 2002	—	—	—	4,237	4,237
Balance at 30th September 2002	<u>24,900</u>	<u>1,856</u>	<u>56,942</u>	<u>(10,481)</u>	<u>73,217</u>

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**APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP**

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**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***For the six months ended 30th September, 2003*

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>30th September</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash from operating activities	64,364	56,489
Net cash from investing activities	13,627	949
Net cash used in financing activities	<u>(3,000)</u>	<u>(60)</u>
Net increase in Cash and Cash equivalents	74,991	57,378
Cash and Cash Equivalents at beginning of period	<u>58,235</u>	<u>55,872</u>
Cash and Cash Equivalents at end of period	<u><u>133,226</u></u>	<u><u>113,250</u></u>
Analysis of the balances of Cash and Cash Equivalents		
Cash and bank balances	133,226	113,252
Bank overdrafts	<u>—</u>	<u>(2)</u>
	<u><u>133,226</u></u>	<u><u>113,250</u></u>

# APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2003

### 1. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies adopted in these condensed consolidated interim financial statements have been prepared on a basis consistent with the principal accounting policies as stated in the audited financial statements of the Group for the year ended 31st March, 2003, except that the Group has adopted the SSAP 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants, which is effective for accounting periods commencing on or after 1st January, 2003.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous periods, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of this standard has had no material effect on the results for the current or prior accounting periods of the Group and accordingly, no prior period adjustment is required.

### 2. SEGMENT INFORMATION

Turnover and segment information for the six months ended 30th September, 2003.

	<b>Building construction &amp; maintenance</b>	<b>Civil engineering</b>	<b>Consolidated total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>TURNOVER</b>			
External sales	<u>56,803</u>	<u>94,199</u>	<u>151,002</u>
<b>RESULT</b>			
Segment results	<u>8,712</u>	<u>(2,817)</u>	5,895
Unallocated corporate expenses			(1,551)
Interest income			1,519
Net unrealised loss on other investment			<u>(482)</u>
Profit from operations			5,381
Share of result of an associate			588
Share of results of jointly controlled entities	14	(2,076)	<u>(2,062)</u>
Profit before taxation			3,907
Taxation			<u>(1,450)</u>
Profit before minority interest			<u>2,457</u>

All activities of the Group were carried out in Hong Kong.

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### 2. SEGMENT INFORMATION *(continued)*

Turnover and segment information for the six months ended 30th September, 2002.

	<b>Building construction &amp; maintenance</b> <i>HK\$'000</i>	<b>Civil engineering</b> <i>HK\$'000</i>	<b>Consolidated total</b> <i>HK\$'000</i>
<b>TURNOVER</b>			
External sales	<u>34,095</u>	<u>53,140</u>	<u>87,235</u>
<b>RESULT</b>			
Segment results	<u>5,325</u>	<u>(1,043)</u>	4,282
Unallocated corporate expenses			(1,274)
Interest income			<u>718</u>
Profit from operations			3,726
Interest expenses			(14)
Share of result of an associate			1,028
Share of results of jointly controlled entities	(228)	(135)	<u>(363)</u>
Profit before taxation			4,377
Taxation			<u>(165)</u>
Profit before minority interest			<u>4,212</u>

All activities of the Group were carried out in Hong Kong.

### 3. PROFIT FROM OPERATIONS

	<b>Six months ended 30th September</b>	
	<b>2003</b> <i>HK\$'000</i>	<b>2002</b> <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Depreciation on property, plant and equipment	993	1,002
Less: Amount capitalised to contract work	<u>(737)</u>	<u>(593)</u>
	<u>256</u>	<u>409</u>
Operating lease charges:		
Premises	856	1,231
Plant and machinery	35,269	17,365
Less: Amount capitalised to contract work	<u>(35,269)</u>	<u>(17,365)</u>
	<u>856</u>	<u>1,231</u>
Staff costs, including directors' emoluments	17,913	24,713
Less: Amount capitalised to contract work	<u>(11,186)</u>	<u>(13,592)</u>
	<u>6,727</u>	<u>11,121</u>

## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### 4. TAXATION

	Six months ended	
	30th September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for Hong Kong Profits Tax:		
The Company and subsidiaries	1,347	–
Associate	103	165
Jointly controlled entities	–	–
	1,450	165
	1,450	165

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profits of each individual company comprising the Group. No provision for Hong Kong Profits Tax in the prior period had been made as the assessable profit of the Company and its subsidiaries were wholly absorbed by tax losses brought forward.

### 5. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of HK\$2,434,000 (2002: HK\$4,237,000) and on 249,000,000 (2002: 249,000,000) shares in issue during the period.

Diluted earnings per share is not presented as there is no outstanding options during the period and the same period of last year.

### 6. TRADE AND OTHER DEBTORS, DEPOSITS AND PREPAYMENTS

Interim application for progress payments on construction contracts are normally on a monthly basis and settled according to contract terms.

Included in trade and other debtors, deposits and prepayments are trade receivables of HK\$102,539,000 (31st March, 2003: HK\$165,213,000) with an aged analysis as follows:

	Balance at 30th September 2003	Balance at 31st March 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 60 days	38,417	40,264
61 – 90 days	–	4
> 90 days	64,122	124,945
	102,539	165,213
	102,539	165,213

### 7. INVESTMENTS IN SECURITIES

	Balance at 30th September 2003	Balance at 31st March 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Other investments</b>		
Unlisted investments in mutual fund and bonds, at fair value	31,086	47,241
	31,086	47,241
	31,086	47,241



## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

### 8. CREDITORS, DEPOSITS AND ACCRUALS

Included in creditors, deposits and accruals are trade payables of HK\$93,393,000 (31st March, 2003: HK\$101,443,000) with an aged analysis as follows:

	<b>Balance at 30th September 2003 <i>HK\$'000</i></b>	<b>Balance at 31st March 2003 <i>HK\$'000</i></b>
0 – 60 days	32,959	48,363
61 – 90 days	10,860	10,650
> 90 days	49,574	42,430
	93,393	101,443

### 9. COMMITMENTS AND CONTINGENT LIABILITIES

As at the balance sheet date, there were:

- (a) Rentals payable by the Group for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	Premises		Plant, barges and dredgers	
	30th September 2003 <i>HK\$'000</i>	31st March 2003 <i>HK\$'000</i>	30th September 2003 <i>HK\$'000</i>	31st March 2003 <i>HK\$'000</i>
Within one year	1,569	1,761	3,967	4,216
In the second to fifth year inclusive	376	1,128	–	–
	1,945	2,889	3,967	4,216

Leases on premises are negotiated for an average term of one to two years with fixed monthly rentals over the terms of the leases.

- (b) Guarantees issued by the Company to the extent of approximately HK\$14,975,000 (31st March, 2003: HK\$14,975,000) and HK\$2,500,000 (31st March, 2003: HK\$2,500,000) to insurance companies and financial institutions as security in connection with performance bonds for construction contracts undertaken by certain subsidiaries and credit facilities granted to the subsidiaries and a jointly controlled entity, respectively.
- (c) The Group and certain contractors had undertaken to provide guarantees for rectification of defects in favour of an employer in connection with the work performed for a project.

### INTERIM DIVIDEND

The Board of Directors has resolved not to declare any interim dividend for the six months ended 30th September, 2003 (2002: Nil).

### MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30th September, 2003, the Group has maintained a substantial growth in turnover to HK\$151 million representing 73% increase compared with same period last year (2002: HK\$87 million). Operating profit increased to HK\$5.4 million (2002: HK\$3.7 million). However, after sharing results of jointly controlled entities, profit attributable to shareholders was HK\$ 2.4 million (2002: HK\$4.2 million) and earnings per share was HK0.98 cent (2002: HK1.7 cents).

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## **APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP**

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Despite the difficult market condition especially in the private sector due to the excessive supply in the property market, the Group has successfully bid for several contracts from the HKSAR Government. As of 30th September, 2003, value of building construction and civil engineering contracts on hand for the Group amounted to approximately HK\$385 million and HK\$110 million respectively.

### **Construction Projects**

During the period under review, the Group was awarded the contract by Architectural Services Department to build the International Wetland Park in Tin Shui Wai, New Territories. The project included all the associated building service installations, drainage works, utility connection and pavement works of the Park. It is expected that the project will be completed in late 2004. Upon completion, it will be an important ecological tourist attraction spot in Hong Kong embodying conservation, education and recreation in one place.

A new contract for the construction of a Primary School and a Secondary School in Area 16, Kau Hui, Yuen Long, New Territories was awarded during the period under review. It included the construction of a 8-storey V-shaped primary school building and a L-shaped secondary school building with 30 classrooms and associated facilities respectively. The work was commenced in September, 2003 and is expected to be completed in 2005.

Subsequent to the period under review, another new contract for the construction of a Primary School and a Secondary School in Area 104, Tin Shui Wai, New Territories was added to the order book of the Group. It included the construction of a 8-storey L-shaped primary school building and a U-shaped secondary school building with 30 classrooms and associated facilities respectively. Construction work was commenced in October, 2003 and is also expected to be completed in 2005.

Construction of Lam Tin Primary School at Kwun Tong was completed in June, 2003.

### **Civil Engineering Projects**

During the period under review, contracts on hand were the Construction of Seawalls and Reclamation at Tseung Kwan O Port Development at Area 137, Stage 2 and Jordan Road Reclamation Phase III and Remaining Engineering Works.

### **Other Business**

The performance of the joint-venture concrete business slowed down when compared with the same period last year due to competition from suppliers.

### **PROSPECTS**

With the outbreak of Severe Acute Respiratory Syndrome, Hong Kong economy has slumped into a recession in the second quarter of 2003. Although there was signs of recovery in the third quarter of 2003, the property market in Hong Kong still remained sluggish especially with ample supply of new flats. Furthermore, the HKSAR government has committed to reduce the fiscal deficit, albeit at a slower pace. These continue to pose a drag on investment spending on building and construction and the rebound in the construction industry is not likely to come about in the near term.

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## **APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP**

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Looking ahead, the Group will continue to adopt its prudent cost control measures to enhance cost-effectiveness and competitiveness and well manage the projects on hand. In addition, the Group will also manage its cash resources cautiously and effectively in order to enhance its return. We certainly believe that with sound professional management and dedicated work force, the Company will be able to meet the turnaround of the construction industry in the future.

### **SUBSEQUENT EVENT**

#### **Proposed Privatisation of the Company**

On 31st October, 2003, Chevalier International Holdings Limited (“CIHL”) proposed to privatise the Company by way of a scheme of arrangement under section 99 of the Bermuda Companies Act (the “Proposal”) at the cancellation price of HK\$0.25 per scheme share (the “Scheme Share(s)”). The making of the Proposal was duly approved by CIHL independent shareholders at the special general meeting of CIHL on 5th December, 2003. Subject to the approval of the scheme shareholders in the Court Meeting and the special general meeting of the Company which is expected to be held in January, 2004, all the Scheme Shares will be cancelled and the Company will become a wholly-owned subsidiary of CIHL. The Company will then apply to The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) for the withdrawal of the listing of its shares

### **FINANCIAL REVIEW**

As at 30th September, 2003, the Group’s total net asset amounted to approximately HK\$79 million (HK\$76 million as at 31st March, 2003).

As at 30th September, 2003, total debt to equity ratio was nil (Nil as at 31st March, 2003) and net debt to equity ratio was nil (Nil as at 31st March, 2003), which are expressed as a percentage of bank and other borrowings, and net borrowings respectively, over the total net asset of HK\$79 million (HK\$76 million as at 31st March, 2003).

As at 30th September, 2003, the Group’s bank and other borrowings was nil (Nil as at 31st March, 2003) while cash and deposit at bank amounted to approximately HK\$133 million (HK\$58 million as at 31st March, 2003).

Finance costs for the period was nil (HK\$14,000 for the same period last year), a decrease of HK\$14,000 as compared with the same period last year resulting from the repayment of finance lease.

The Company has provided guarantees in respect of loan facilities granted to subsidiary companies amounting to HK\$6 million (HK\$6 million as at 31st March, 2003).

The Group adopts conservative treasury policies in cash and financial management. To achieve better risk control and minimise cost of funds, the Group’s treasury activities are centralised. The Group’s liquidity and financing requirements are frequently reviewed. In anticipating new investments or maturity of bank loans, the Group will consider new financing while maintaining an appropriate level of gearing.”

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## APPENDIX I FINANCIAL INFORMATION RELATING TO THE CCHL GROUP

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### 5. STATEMENT OF INDEBTEDNESS

As at the close of business on 30th November, 2003, the CCHL Group had contingent liabilities for guarantees issued to the extent of approximately HK\$14,975,000 and HK\$2,500,000 to insurance companies and financial institutions as security in connection with performance bonds for construction contracts undertaken by CCHL Group's subsidiaries and credit facilities granted to CCHL Group's subsidiaries and a jointly controlled entity respectively.

As at the same date, none of the companies of the CCHL Group had any outstanding mortgages, charges, debentures, loan capital and overdrafts, or other similar indebtedness, finance leases or hire-purchase commitments, liabilities under acceptances or acceptances credits or any guarantees or other material contingent liabilities.

### 6. MATERIAL CHANGE

The Directors are not aware of any material change in the financial, trading position or prospect of the CCHL Group since 31st March, 2003, the date to which the latest audited consolidated financial statements of the CCHL Group were made up.

### 7. PRO FORMA STATEMENT OF NET TANGIBLE NET ASSET VALUE

Set out below is a pro forma statement of the unaudited pro forma adjusted consolidated net tangible asset value of CCHL Group based on the consolidated net tangible asset value of the CCHL Group as at 31st March, 2003 and adjusted as follows:

	<i>HK\$ million</i>
Audited consolidated net tangible asset value as at 31st March, 2003	76.4
Adjusting for interim results of CCHL Group for the six months ended 30th September, 2003	<u>2.4</u>
Unaudited pro forma adjusted net tangible asset value of CCHL Group	<u><u>78.8</u></u>
Unaudited pro forma adjusted net tangible asset value per CCHL Share (based on 249,000,000 CCHL Shares in issue as at the Latest Practicable Date)	<u><u>HK\$0.317</u></u>

## 1. RESPONSIBILITY STATEMENT

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

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

## 2. MARKET PRICES

The CCHL Shares are traded on the Stock Exchange.

- (a) The table below shows the respective closing prices of the CCHL Shares on the Stock Exchange (i) on the last trading day of each of the six calendar months preceding the date of the Announcement; (ii) Last Trading Day; and (iii) on the Latest Practicable Date.

<b>Date</b>	<b>Price per CCHL Share</b> <i>HK\$</i>
2003	
31st March	0.080
30th April	0.090
30th May	0.122
30th June	0.118
31st July	0.110
29th August	0.165
30th September	0.196
Last Trading Day	0.215
Latest Practicable Date	0.244

The highest and lowest closing prices of the CCHL Shares recorded on the Stock Exchange during the period from 30th April, 2003, being the date six months prior to the date of the Announcement, to the Latest Practicable Date (the “Relevant Period”), were HK\$0.247 on 16th December, 2003 and HK\$0.055 on 26th June, 2003, respectively.

### 3. DISCLOSURE OF INTERESTS

#### (A) CCHL Directors interest and short position in the securities of CCHL and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the CCHL Directors in the shares, underlying shares and debentures of CCHL and its associated corporations, within the meaning of Part XV of the SFO, which had been notified to CCHL and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the CCHL Directors were taken or deemed to have under such provisions of the SFO, or which were required to be and were recorded in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to CCHL and the Stock Exchange pursuant to the Model Code were as follows:

##### (i) Interest in issued shares of CCHL and/or its associated corporations

###### (a) Interest in CCHL – shares

Name of CCHL Director	Number of CCHL Shares held			Total	Approximate percentage of interest (%)
	Personal interest	Corporate interest	Family interest		
Dr. Chow	61,036,489	89,385,444*	–	150,421,933	60.41
Mr. Kuok	1,326,437	–	–	1,326,437	0.53
Mr. Tam	625,796	–	7,142	632,938	0.26

\* Dr. Chow had notified CCHL that under the SFO, he was deemed to be interested in 89,385,444 CCHL Shares which were all held by CIHL as Dr. Chow beneficially owned 138,602,863 CIHL Shares, representing approximately 50.27% of CIHL Shares.

## (b) Interest in CCHL's associated corporations – shares

Name of CCHL Director	Associated corporation	Number of ordinary shares				Total	Approximate percentage of interest (%)
		Personal interests	Corporate interests	Family interests			
Dr. Chow	CiTL	6,815,854	86,994,933*	-	-	93,810,787	54.75
	CIHL	138,602,863	-	-	-	138,602,863	50.27
Mr. Kuok	CiTL	2,400,000	-	-	-	2,400,000	1.4
	CIHL	98,216	-	-	-	98,216	0.04
Mr. Tam	CiTL	400,000	-	10,400	-	410,400	0.24
	CIHL	169,015	-	32,473	-	201,488	0.07

\* Dr. Chow had notified CiTL that under the SFO, he was deemed to be interested in 86,994,933 shares in CiTL, which were all held by CIHL as Dr. Chow beneficially owned 138,602,863 CIHL Shares, representing approximately 50.27% of CIHL Shares.

## (ii) Interest in share options of CCHL's associated corporations

CIHL and CiTL adopted share option schemes on 30th September, 1991 (“the Old CIHL Scheme and Old CiTL Scheme respectively”). These schemes expired on 29th September, 2001 and no further options may be granted under the Old CIHL Scheme and Old CiTL Scheme thereafter. Details of the outstanding options as at Latest Practicable Date which had been granted under the share option schemes of CCHL's associated corporations were as follows:

Name of CCHL Director	Associated corporations	Date of grant	Period during which options are exercisable	Exercise price per option (HK\$) (note)	Balance as at 31st March, 2003 (note)	Number of share options				Outstanding as at the Latest Practicable Date
						Exercised	Cancelled	Lapsed (note)	Disposed of (note)	
Dr. Chow	CIHL	17/12/1999	30/06/2000 – 29/06/2003	2.44	1,690,000	-	-	-	1,690,000	-
	CiTL	17/12/1999	30/06/2000 – 29/06/2003	2.32	1,400,000	-	-	1,400,000	-	-
Mr. Kuok	CIHL	17/12/1999	30/06/2000 – 29/06/2003	2.44	1,070,000	-	-	-	1,070,000	-
	CiTL	17/12/1999	30/06/2000 – 29/06/2003	2.32	1,000,000	-	-	1,000,000	-	-
Mr. Tam	CIHL	17/12/1999	30/06/2000 – 29/06/2003	2.44	1,000,000	-	-	-	1,000,000	-
Mr. Wong Kie Ngok, Alexander	CIHL	17/12/1999	30/06/2000 – 29/06/2003	2.44	1,000,000	-	-	-	1,000,000	-

*Note: The exercise price per option and the numbers of CIHL shares and CiTL shares subject to the Old CIHL Scheme and Old CiTL Scheme respectively have been adjusted for the five into one share consolidation which became effective on 6th June, 2003.*

During the period from 31st March, 2003 up to and including the Latest Practicable Date the above CCHL Directors disposed of their entire interests in the options granted to them under the Old CIHL Scheme.

As at 31st March, 2003, the number of shares in respect of which options had been granted under the Old CIHL Scheme and Old CiTL Scheme was 6,830,000 and 5,710,000 (adjusted for the five into one share consolidation which became effective on 6th June, 2003), representing 2.7% of the shares of CIHL and 3.3% of the shares of CiTL in issue at that date respectively. No options had been exercised during the period from 31st March, 2003 to 29th June, 2003. All the options expired on 29th June, 2003.

A share option scheme of CIHL (“the CIHL Scheme”) was approved by the CIHL Shareholders at the 2002 Annual General Meeting of CIHL held on 20th September, 2002. Another share option scheme of CiTL (“the CiTL Scheme”) was also approved by the CIHL Shareholders and shareholders of CiTL at their respective 2002 Annual General Meeting held on 20th September, 2002. The CIHL Scheme and the CiTL Scheme fully comply with Chapter 17 of the Listing Rules. As at the Latest Practicable Date, no share option was granted, exercised, cancelled or lapsed under the CIHL Scheme and the CiTL Scheme.

Save as disclosed above, so far as is known to the CCHL Directors, as at the Latest Practicable Date, no other persons had interests or short positions in the shares, underlying shares and debentures of CCHL or any of its associated corporation (within the meaning of Part XV of the SFO) which are required to be notified to CCHL and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have taken under such provisions of the SFO); or are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or are required, pursuant to the Model Code to be notified to CCHL and the Stock Exchange.



**(B) Persons who have an interest or short position which is discloseable under Division 2 and 3 of Part XV of the SFO and substantial CCHL Shareholders**

Name of Substantial Shareholder	Number of Shares held	% of Issued Share Capital
Dr. Chow ( <i>Notes 1 and 3</i> )	150,421,933	60.41%
Miyakawa Michiko ( <i>Note 2</i> )	150,421,933	60.41%
CIHL ( <i>Note 3</i> )	89,385,444	35.90%
CHK ( <i>Note 3</i> )	16,736,674	6.72%
Firstland ( <i>Note 3</i> )	16,736,674	6.72%

*Notes:*

1. These CCHL Shares are held by Dr. Chow as (i) personal interest of 61,036,489, and (ii) corporate interest of 89,385,444 in which Dr. Chow is deemed to be interested in under the SFO.
2. These CCHL Shares are held by Dr. Chow. Ms. Miyakawa Michiko, the spouse of Dr. Chow, is deemed to be interested in the CCHL Shares held by Dr. Chow.
3. These 16,736,674 CCHL Shares are held by Firstland, a company incorporated in Hong Kong and a wholly-owned subsidiary of CHK. CHK is a company incorporated in Hong Kong and a wholly-owned subsidiary of CIHL. CIHL is a company incorporated in Bermuda. Dr. Chow is deemed to be interested in the 16,736,674 CCHL Shares held by Firstland.

So far as is known to the CCHL Directors, as at the Latest Practicable Date, save as disclosed above, no persons had interests or short positions in the CCHL Shares and underlying shares of CCHL which are required to be disclosed to CCHL and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of CCHL.

**(C) Holdings, interests and dealings in the CCHL Shares**

As at the Latest Practicable Date, save as disclosed in (A) and (B) above:

- (i) CIHL and its concert parties had not dealt in value for any CCHL Shares during the Relevant Period;
- (ii) none of the CIHL Directors had dealt in value for any CCHL Shares during the Relevant Period;
- (iii) no person had irrevocably committed themselves to accept or reject the Scheme;
- (iv) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and CIHL or any person acting in concert with CIHL or any person who is an associate of CIHL by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code;
- (v) none of the CCHL Directors had dealt in any CCHL Shares during the Relevant Period;
- (vi) none of the subsidiaries of CCHL or any advisers of CCHL (as specified in class (2) of the definition of associate under the Takeovers Code) owned or controlled any CCHL Shares or had dealt for value in any CCHL Shares during the Relevant Period;
- (vii) neither CCHL nor any of its subsidiaries had any pension fund during the Relevant Period;
- (viii) there was no interest in any CCHL Shares which was managed on a discretionary basis by fund managers (other than exempt fund managers) connected with CCHL and no such fund manager had dealt for value in any CCHL Shares during the Relevant Period; and
- (ix) no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code existed between any person and CCHL or any person who is an associate of CCHL by virtue of classes (1), (2), (3) or (4) of the definition of “associate” under the Takeovers Code.

**(D) Holdings, interests and dealings in the CIHL Shares**

As at the Latest Practicable Date:

- (i) CCHL did not hold any CIHL Shares and had not dealt in any CIHL Shares during the Relevant Period; and

- (ii) Dr. Chow had dealt in the CIHL Shares during the Relevant Period. The information of his dealing is as set out below:

<b>Date 2003</b>	<b>No. of CIHL Shares buy/(sell)</b>	<b>Price (HK\$)</b>
10th October	4,090,512	3.2395
5th November	170,000	3.9 – 3.925
6th November	544,000	3.925 – 3.975
7th November	454,000	3.975 – 4.075
10th November	488,000	4.075 – 4.125
11th November	220,000	4.1 – 4.125
12th November	124,000	4.125 – 4.175

Save as disclosed above, none of the CCHL Directors had dealt in any CIHL Shares during the Relevant Period.

**(E) Miscellaneous**

As at the Latest Practicable Date:

- (i) no benefit was or will be paid to any CCHL Director as compensation for loss of office or otherwise in connection with the Scheme;
- (ii) no agreement, arrangement or understanding, including any compensation arrangement, existed between CIHL or any person acting in concert with CIHL and any of the CCHL Directors, recent CCHL Directors, CCHL Shareholders or recent CCHL Shareholders having any connection with or dependence upon the Scheme;
- (iii) no agreement or arrangement existed between any CCHL Director and any other person which was conditional on or dependent upon the outcome of the Scheme or otherwise connected with the Scheme;
- (iv) no material contract was entered into by CIHL in which any of the CCHL Directors has a material personal interest; and
- (v) none of the CCHL Directors had a service contract in force with any member of the CCHL Group or associated companies of CCHL which had more than twelve months to run or which was entered into or amended within six months before the Announcement.

**5. MATERIAL CONTRACTS**

During the two years prior to 31st October, 2003, the CCHL Group had not entered into any contracts which are or may be material other than in the ordinary course of the business carried out or intended to be carried out by the CCHL Group.

**6. LITIGATION**

As at the Latest Practicable Date, CCHL Group was involved in the following material lawsuit:-

- (a) CCHK, commenced an action in 2001 against a contractor under a residential commercial development for the sum of HK\$10,400,668.29 together with other relief for rectifying defective works in relation to supply and installation of marble and granite tiles carried out by the contractor. The contractor counterclaimed the sum of HK\$5,645,359.39 for work done and damages and other relief. The pleadings of the action have now closed and are pending discovery.
- (b) An action was commenced by a contractor in 2001 against CCHK for the sum of HK\$3,088,443.68, being work done and damages for supply and installation of marble and granite tiles under a commercial development. CCHK counterclaimed the sum of HK\$9,103,539.96 together with other relief for rectifying the defective work carried out by the contractor. The pleadings of the action have now closed and are pending discovery.
- (c) CCHK commenced an action in 2003 against a contractor under a commercial/residential development for the sum of HK\$630,857.87 together with other relief, being over payment made by CCHK for supply and installation of certain steel reinforcement carried out by the contractor. The contractor counterclaimed the sum of HK\$4,199,258.97 for work done and damages and other relief. The pleadings of the action have now closed and are pending discovery.

Save as aforesaid, CCHL Group was not, as at the Latest Practicable Date, engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to any of the CCHL Directors to be pending or threatened by or against CCHL Group.

**7. MISCELLANEOUS**

- (i) The ultimate controlling shareholder of CIHL is Dr. Chow. The CIHL Directors are Dr. Chow, Mr. Kuok, Mr. Tam, Mr. Fung Pak Kwan, Mr. Kan Ka Hon, Mr. Wong Kie Ngok, Alexander, Mr. Wong Wang Fat, Andrew and Mr. Chow Ming Kuen, Joseph.
- (ii) The registered office of CCHL is at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda.
- (iii) The principal place of business of CCHL and CIHL are at 22nd Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong.
- (iv) The address of Firstland, Dr. Chow, Mr. Kuok, Mr. Tam, Mr. Fung Pak Kwan, Mr. Kan Ka Hon and Mr. Wong Kie Ngok, Alexander is at 22nd Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong.

- (v) The registered office of Somerley is Suite 3108, One Exchange Square, 8 Connaught Place, Central, Hong Kong.
- (vi) The expenses and costs incurred by CCHL in connection with the Scheme will be borne by CCHL and CIHL, insofar as they relate to each of them, if the Scheme becomes effective, and by CIHL, if the Scheme does not become effective.
- (vii) The English text of this document and the forms of proxy shall prevail over the Chinese text.
- (viii) All announcements in relation to the Proposal will be published as a paid announcement in at least one leading English language newspaper and two leading Chinese language newspapers, being in each case a newspaper which is published daily and circulating generally in Hong Kong.

## 8. EXPERTS

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

Name	Qualifications
Somerley	A licensed corporation under the SFO licensed to conduct types 1, 4, 6 and 9 of the regulated activities under the SFO
Quam	A deemed licensed corporation under the SFO licensed to conduct types 4, 6 and 9 of the regulated activities under the SFO

## 9. CONSENTS

Quam has given and has not withdrawn the written consents to the issue of this document with the inclusion therein its letter and the references to its name in the form and context in which it appears.

Somerley has given and has not withdrawn the written consents to the issue of this document with the inclusion therein the references to its name in the form and context in which it appears.

## 10. FINANCING ARRANGEMENTS

CIHL, through its subsidiaries obtained from Liu Chong Hing Bank Limited (“LCH Bank”) general banking facilities amounted to HK\$40 million to finance the implementation of the Proposal (the “Facility”). Drawdown under the Facility is permitted up to 31st March, 2004 subject to the Supreme Court sanctioning the Scheme. Any drawing may, with 48 hours advance written notice to LCH Bank, be repaid subject to LCH’s prior approval.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection at the offices of CCHL at 22nd Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong during normal business hours on any weekday (public holdings excepted) until the Effective Date or the date on which the Scheme lapses or, if it is withdrawn, whichever is the earlier:

- (a) the memorandum of association and bye-laws of CIHL;
- (b) the memorandum of association and bye-laws of CCHL;
- (c) the audited consolidated financial statements of the CCHL Group for each of the two years ended 31st March, 2003 and the unaudited condensed consolidated financial statements for the six months ended 30th September, 2003;
- (d) the letter from Quam, the text of which is set out on pages 15 to 26 of this document;
- (e) the letters from the CCHL Independent Board Committee, the text of which is set out on page 14 of this document;
- (f) the letters of consent referred to in section titled “Experts” of this Appendix; and
- (g) the copies of the letter relating to the general banking facilities referred to in section titled “Financing Arrangements” of this Appendix.

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**SCHEME OF ARRANGEMENT**

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**IN THE SUPREME COURT OF BERMUDA  
CIVIL JURISDICTION**

**2003: NO. 498**

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**IN THE MATTER OF  
CHEVALIER CONSTRUCTION HOLDINGS LIMITED**

**and**

**IN THE MATTER OF SECTION 99  
OF THE COMPANIES ACT 1981**

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**SCHEME OF ARRANGEMENT**

**between**

**CHEVALIER CONSTRUCTION HOLDINGS LIMITED**

**and**

**THE HOLDERS OF SCHEME SHARES (as defined herein)**

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**PRELIMINARY**

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

“associate”	has the meaning ascribed to it under the Listing Rules;
“Cancellation Price”	HK\$0.25 in cash per CCHL Share;
“Companies Act”	the Companies Act 1981 of Bermuda (as amended);
“Company” or “CCHL”	Chevalier Construction Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange;
“CCHL Independent Shareholders”	holders of CCHL Shares (other than CIHL, Firstland, CIHL Directors and any of their respective associates and parties acting in concert with them);

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## SCHEME OF ARRANGEMENT

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“CCHL Group”	CCHL and its subsidiaries;
“CCHL Share(s)” or “Shares”	shares of HK\$0.10 each in the capital of CCHL;
“CIHL” or “Controlling Shareholder”	Chevalier International Holdings Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange, and the holder of 35.9% of the issued share capital of the Company;
“CIHL Directors”	the director(s) of CIHL;
“Court Meeting”	the meeting of the CCHL Independent Shareholders to be convened at the direction of the Supreme Court to consider the Proposal;
“Effective Date”	the date (Bermuda time) on which this Scheme becomes effective in accordance with Clause 6 of this Scheme;
“Excluded Persons”	CIHL, Firstland, CIHL Directors and any of their respective associates and parties acting in concert with them;
“Firstland”	Firstland Company Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of CIHL
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong;
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China;
“Latest Practicable Date”	19th December, 2003, being the latest practicable date prior to the release of this Scheme for the purpose of ascertaining certain information for inclusion herein;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Proposal”	the proposal for the privatisation of CCHL by CIHL by way of the Scheme;
“Record Date”	4:00 p.m. (Hong Kong time) on the last day (other than a Saturday) before the Effective Date on which banks are open for business in Hong Kong;
“Register”	the register of members of the Company;
“Relevant Authorities”	appropriate government and/or governmental bodies, regulatory bodies, courts or institutions;



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## SCHEME OF ARRANGEMENT

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“Scheme”	this scheme of arrangement under section 99 of the Companies Act involving the cancellation of the Scheme Shares;
“Scheme Share(s)”	CCHL Shares held by the Scheme Shareholders as at the Record Date;
“Scheme Shareholder(s)”	holder(s) of the CCHL Share(s) other than CIHL and Firstland;
“Shareholder”	a holder of Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited; and
“Supreme Court”	the Supreme Court of Bermuda.

(B) The Company was incorporated on 1st December, 1995 in Bermuda under the Companies Act and, as of the Latest Practicable Date, had an authorised share capital of HK\$60,000,000 divided into 600,000,000 Shares of which 249,000,000 Shares have been issued and are fully paid or credited as fully paid. The Shares of the Company are listed on the Stock Exchange.

(C) The primary purpose of this Scheme is that the holders of Scheme Shares should receive cash, in consideration of the cancellation and extinguishment of the Scheme Shares, on the basis of HK\$0.25 in cash for every Scheme Share held by them, and that the Company should become a wholly-owned subsidiary of CIHL.

(D) On the Latest Practicable Date, the Excluded Persons beneficially owned an aggregate of 152,381,308 CCHL Shares fully paid as follows:

<b>Excluded Person(s)</b>	<b>Number of CCHL Shares Owned</b>
CIHL	72,648,770
Firstland	16,736,674
Dr. Chow Yei Ching and his concert parties	61,036,489
Mr. Kuok Hoi Sang and his concert parties	1,326,437
Mr. Tam Kwok Wing and his concert parties	632,938

(E) Each of the Excluded Persons has undertaken in relation to such Shares of which it is the beneficial owner, that such Shares (i) will remain so beneficially owned by him until the date on which the Scheme becomes effective, is withdrawn or lapses and (ii) will not be represented or voted at the Court Meeting.

(F) CIHL and Firstland have agreed to appear by Counsel at the hearing of the petition to sanction this Scheme and to undertake to the Supreme Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed and done by it for the purpose of giving effect to this Scheme including, without limitation, CIHL satisfying its payment obligations under Part II of this Scheme.

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## **SCHEME OF ARRANGEMENT**

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### **THE SCHEME**

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#### **PART I**

#### **CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES**

1. On the Effective Date:
  - (a) the issued share capital of the Company shall be reduced by cancelling and extinguishing all the Scheme Shares;
  - (b) subject to and forthwith upon such reduction of issued capital taking effect, the authorised share capital of the Company shall be reduced to HK\$8,938,544.40 comprising 89,385,444 Shares; and
  - (c) the Company shall apply the credit arising in its books of account as a result of the said reductions referred to in Clauses 1 (a) and (b) above to a reserve account in its books of account.

#### **PART II**

#### **CONSIDERATION FOR CANCELLATION AND EXTINGUISHMENT OF THE SCHEME SHARES**

2. In consideration for the cancellation and extinguishment of the Scheme Shares, CIHL shall pay or procure that there shall be paid to the persons who are holders of Scheme Shares (as appearing in the Register at the Record Date) HK\$0.25 in cash for every Scheme Share held.
3.
  - (a) Not later than ten days after the Effective Date, CIHL shall send or cause to be sent to the holders of Scheme Shares (as appearing in the Register at 4:00 p.m. on the Record Date) cheques in respect of the sums payable to such holders pursuant to Clause 2 of this Scheme.
  - (b) Unless indicated otherwise in writing to the branch share registrar of the Company in Hong Kong, namely, Standard Registrars Limited, situate at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, all such cheques shall be sent by post in pre-paid envelopes addressed to such holders at their respective addresses as appearing in the Register at 4:00 p.m. (Hong Kong time) on the Record Date or, in the case of joint holders, at the address appearing on such register at such time of that one of the joint holders whose name stands first in such register in respect of the relevant joint holding.
  - (c) Cheques shall be posted at the risk of addressees and CIHL shall not be responsible for any loss or delay in transmission.

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## SCHEME OF ARRANGEMENT

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- (d) Each such cheque shall be payable to the order of the person to whom in accordance with the provisions of Clause 3 (b) above the envelope containing the same is addressed and the encashment of any cheque shall be good discharge to CIHL for the monies represented thereby.
  - (e) On or after the day being six calendar months after the posting of the cheques pursuant to Clause 3 (b) above, CIHL shall have the right to cancel or countermand payment of any such cheque which has not then been encashed or has been returned uncashed and shall place all monies represented thereby in a deposit account in the Company's name with a licensed bank in Hong Kong selected by the Company. The Company shall hold such monies until the expiration of six years from the Effective Date and shall prior to such date make payments thereout of the sums payable pursuant to Clause 2 of this Scheme to persons who satisfy the Company that they are respectively entitled thereto and the cheques referred to in paragraph (b) above of which they are payees have not been cashed. Any payments made by the Company hereunder shall include any interest accrued on the sums to which the respective persons are entitled pursuant to Clause 2 of this Scheme, calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject, if applicable, to the deduction of interest tax or any withholding tax or any other deduction required by law. The Company shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled or not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant monies.
  - (f) On the expiration of six years from the Effective Date, CIHL shall be released from any further obligation to make any payments under this Scheme and the Company shall transfer to CIHL the balance (if any) of the sums then standing to the credit of the deposit account referred to in Clause 3(e) above including accrued interest subject, if applicable, to the deduction of interest, tax or any withholding tax or any other deduction required by law and subject to the deduction of any expenses.
  - (g) Clause 3 (f) above shall take effect subject to any prohibition or condition imposed by law.
4. As from the Effective Date, all certificates representing the Scheme Shares shall cease to have effect as documents of title and every holder thereof shall be bound on the request of the Company to deliver up to the Company the certificates for his or her existing shareholdings in the Company.
  5. This Scheme shall become effective upon a copy of the Order of the Supreme Court sanctioning this Scheme under Section 99 of the Companies Act being duly registered by the Registrar of Companies in Bermuda.
  6. Unless this Scheme shall have become effective as aforesaid on or before 31st March, 2004 or such later date as the Company and CIHL may agree or as the Supreme Court may direct this Scheme shall lapse.

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## SCHEME OF ARRANGEMENT

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7. The Company and CIHL may jointly consent for and on behalf of all concerned to any modification of, or addition to, this Scheme or to any condition which the Supreme Court may think fit to approve or impose.
  
8. The expenses and costs incurred by the Company in connection with the Scheme will be borne:
  - (a) by the Company and CIHL, insofar as they relate to each of them, if the Scheme becomes effective; and
  
  - (b) by CIHL, if the Scheme does not become effective.

Dated 22nd December, 2003

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## NOTICE OF COURT MEETING

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### IN THE SUPREME COURT OF BERMUDA

#### CIVIL JURISDICTION

**2003: NO. 498**

**IN THE MATTER OF  
CHEVALIER CONSTRUCTION HOLDINGS LIMITED  
AND IN THE MATTER OF SECTION 99 OF THE COMPANIES ACT 1981**

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#### NOTICE OF COURT MEETING OF THE HOLDERS OF SCHEME SHARES

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**NOTICE IS HEREBY GIVEN** that, by an Order dated the 18th day of December, 2003, made in the above matter, the Supreme Court of Bermuda (the “Court”) has directed a meeting to be convened of the qualified holders of the Scheme Shares, being the CCHL Independent Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) for the purposes of considering and, if thought fit, approving (with or without modification), a Scheme of Arrangement proposed to be made between Chevalier Construction Holdings Limited (the “Company”) and the holders of the Scheme Shares and that such meeting will be held at 9:15 a.m. on 16th January, 2004 at 22/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong at which place and time all CCHL Independent Shareholders are requested to attend.

A copy of a printed composite document of which this notice forms a part containing the said Scheme of Arrangement and the Explanatory Statement required to be furnished pursuant to Section 100 of the above-mentioned Act together with a Pink Form of Proxy have been posted to every holder of the Scheme Shares having a registered address in the register of members of the Company. Additional copies of the said documents can be obtained by any person entitled to attend the said meeting during usual business hours on any day prior to the day appointed for the said meeting (other than a Saturday afternoon, a Sunday or a statutory holiday):

- (i) at the registered office of the Company in Bermuda situate at Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda;
- (ii) at the office of the branch registrar of the Company in Hong Kong, namely Standard Registrars Limited, situate at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong; and
- (iii) at the office of the Company’s Bermuda attorneys, namely Appleby Spurling & Kempe, situate at 5511, The Center, 99 Queen’s Road Central, Hong Kong;

and can also be seen on display, and may be obtained at the times abovementioned at the principal place of business of the Company situate at 22nd Floor, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong.

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## NOTICE OF COURT MEETING

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The CCHL Independent Shareholders may vote in person at the said meeting or they may appoint another person, whether a shareholder of the Company or not, as their proxy to attend and vote in their stead.

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

It is requested that forms appointing proxies be lodged at the office of the branch registrar of the Company in Hong Kong as stated above not less than 48 hours before the time appointed for the said meeting and in default, the proxy will not be treated as valid. However, if not so deposited, such forms of proxy may be handed to the chairman of the meeting at the said meeting.

By the said Order, the Court has appointed Dr. Chow Yei Ching, a director of the Company, or failing him, Mr. Kuok Hoi Sang, a director of the Company to act as Chairman of the said meeting and has directed the Chairman to report the result thereof to the Court.

The said Scheme of Arrangement will be subject to the subsequent approval of the Court.

Dated this 22nd day of December, 2003.

Appleby Spurling & Kempe  
Canon's Court  
22 Victoria Street  
Hamilton HM 12  
Bermuda  
Attorneys for the Company

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## NOTICE OF SPECIAL GENERAL MEETING

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### **CHEVALIER CONSTRUCTION HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

**NOTICE IS HEREBY GIVEN** that a Special General Meeting of Chevalier Construction Holdings Limited (the “Company”) will be held at 9:30 a.m. on Friday, 16th January, 2004 at 22/F, Chevalier Commercial Centre, 8 Wang Hoi Road, Kowloon Bay, Hong Kong (or so soon thereafter as the meeting of the CCHL Independent Shareholders (as defined in the Scheme of Arrangement hereinafter mentioned) convened by direction of the Supreme Court for the same day and place, shall have been concluded (or concluded after any adjournment thereof) for the purpose of considering and, if thought fit, passing the following resolution which will be proposed as a Special Resolution.

#### **SPECIAL RESOLUTION**

**“THAT**

- (a) the Scheme of Arrangement dated 22nd December, 2003 (the “Scheme”) between the Company and the CCHL Independent Shareholders (as defined in the Scheme) in the form of the print thereof which has been produced to this Meeting and for the purposes of identification initialled by the Chairman of the Meeting, subject to any modification or addition or condition as may be approved or imposed by the Supreme Court, be approved;
- (b) for the purpose of giving effect to the Scheme, on the Effective Date (as defined in the Scheme):
  - (i) the issued share capital of the Company be reduced by cancelling and extinguishing the Scheme Shares (as defined in the Scheme);
  - (ii) the authorised share capital of the Company of HK\$60,000,000 divided into 600,000,000 shares of HK\$0.10 each (“Shares”), be reduced by the amount and number of Shares represented by the cancellation of the Scheme Shares; and
  - (iii) the Company shall apply the credit arising in its books of account as a result of the reductions referred to in sub paragraphs (i) and (ii) above to a reserve account in the books of account of the Company; and

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## NOTICE OF SPECIAL GENERAL MEETING

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- (c) the directors of the Company be authorised to do all other acts and things necessary or desirable in connection with the implementation of the Scheme, including the giving of consent to any modification of, or addition to, the Scheme, which the Supreme Court may see fit to impose.”

By Order of the Board  
**Chevalier Construction Holdings Limited**  
**KAN Ka Hon**  
*Company Secretary*

Dated 22nd December, 2003

*Principal place of business in Hong Kong:*  
22/F., Chevalier Commercial Centre  
8 Wang Hoi Road  
Kowloon Bay  
Hong Kong

*Notes:*

- (i) A shareholder entitled to attend and vote at the Meeting may appoint one or more than one proxy (if the shareholder holds two or more shares) to attend and vote on a show of hands (provided that no proxy may be required to vote on a show of hands) or, on a poll on his/her behalf. A proxy need not be a shareholder of the Company. A proxy who is a Director or other officer of the Company or any of its subsidiaries is not permitted to vote on a show of hands.
- (ii) A white form of proxy for use at the Meeting is enclosed herewith.
- To be valid, the white form of proxy for the Meeting, together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy thereof), must be deposited with the branch share registrar of the Company in Hong Kong, namely Standard Registrars Limited, situate at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting and in default the proxy shall not be treated as valid. Completion and return of the form of proxy will not preclude you from attending the Meeting and voting in person, if you so wish. In the event of your attending the Meeting, your form of proxy will be deemed to have been revoked.
- (iii) In the case of joint holders of a share, any one of such holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the holders so present whose name stands first on the register of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (iv) The register of members will be closed from Wednesday, 14th January, 2004 to Friday, 16th January, 2004 (both dates inclusive) during which period no transfer of shares will be registered. In order to be entitled to attend and vote at the Meeting, all transfers accompanied by the relevant share certificates must be lodged with the branch share registrar of the Company in Hong Kong, namely Standard Registrars Limited, situate at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 13th January, 2004.