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**If you have sold** or otherwise **transferred** all your shares in Guangzhou Investment Company Limited, you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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**越 秀 投 資 有 限 公 司**

**GUANGZHOU INVESTMENT COMPANY LIMITED**

*(Incorporated in Hong Kong with limited liability)*

(Stock code: 123)

## **CONTINUING CONNECTED TRANSACTIONS**

### **Independent Financial Adviser**



**Yu Ming Investment Management Limited**

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A letter from the board of directors of the Guangzhou Investment Company Limited is set out on pages 4 to 12 of this circular.

A letter from the independent board committee of Guangzhou Investment Company Limited is set out on page 13 of this circular.

A letter from Yu Ming Investment Management Limited, the independent financial adviser to the independent board committee and shareholders of Guangzhou Investment Company Limited, is set out on pages 14 to 21 of this circular.

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## DEFINITIONS

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*Unless the context requires otherwise, the following expressions have the following meanings in this circular:*

“Aggregate Annual Cap”	RMB416.09 million (approximately HK\$390.69 million) being the maximum aggregate annual value of the Transactions
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Company”	Guangzhou Investment Company Limited, a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange and on the SES
“connected person”	has the meaning ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“GZ Paper”	an indirect subsidiary of the Company by the name of Guangzhou Paper Co., Ltd. (廣州造紙股份有限公司), a joint stock company which was converted under the laws of the PRC on 27th March, 2003 from a Sino-foreign equity joint venture originally established between GZ Paper Holdings and a wholly-owned subsidiary of the Company. As at the date of this circular, the equity interest of GZ Paper is held as to 51% indirectly by the Company, as to 47.25% by GZ Paper Holdings, and as to the remaining 1.75% by 廣州市金譽實業投資集團有限公司, 廣州市誠毅科技軟件開發有限公司 and 廣州番禺大崗鎮化工廠, which are all Independent Third Parties
“GZ Paper Holdings”	Guangzhou Paper Holdings Limited (廣州造紙集團有限公司), a limited liability company (wholly state-owned) established under the laws of the PRC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the board of Directors of the Company appointed to advise the Shareholders in respect of the Transactions, comprising the independent non-executive directors of the Company, namely, Mr. YU Lup Fat Joseph, Mr. LEE Ka Lun and Mr. LAU Hon Chuen Ambrose
“Independent Third Party”	a party which is not a connected person as defined in the Listing Rules

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## DEFINITIONS

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“Latest Practicable Date”	18th March, 2005, being the latest practicable date for ascertaining certain information referred to in this circular prior to the printing of this circular
“Lease Contract”	the contract dated 17th October, 2002 entered into between GZ Paper Holdings and GZ Paper pursuant to which GZ Paper Holdings leased the Mill Premises to GZ Paper
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mill Premises”	certain land, workshops and ancillary buildings located at No. 40, Guangzhi Road, Haizhu District, Guangzhou, the PRC, with an approximate aggregate gross floor area of 142,344 square metres
“PRC”	People’s Republic of China
“SES”	Singapore Exchange Securities Trading Limited
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning as in section 2 of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as at the date hereof and “subsidiaries” shall be construed accordingly
“substantial shareholder(s)”	has the meaning ascribed to it under the Listing Rules
“Transactions”	the Lease Contract and the Utilities Supply Contract and all transactions contemplated thereunder
“Transfer Agreement”	the agreement dated 17th October, 2002 entered into between GZ Paper and GZ Paper Holdings, pursuant to which GZ Paper transferred to GZ Paper Holdings all its rights in certain assets, which the Mill Premises form part
“Utilities Supply Contract”	the contract dated 17th October, 2002 entered into between GZ Paper Holdings and GZ Paper pursuant to which GZ Paper Holdings provides electricity, water and steam to GZ Paper

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## DEFINITIONS

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“Yu Ming”	Yu Ming Investment Management Limited, a deemed licensed corporation for types 1, 4, 6, and 9 regulated activities under the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

*In this circular, certain amounts quoted in RMB have been translated into Hong Kong dollars at the reference rate of HK\$1.00 to RMB1.065 for information purposes only. Such translation should not be construed as a representation that the relevant amounts have been, could have been, or could be, converted at that or any other rate or at all.*



越秀投資有限公司

**GUANGZHOU INVESTMENT COMPANY LIMITED**

*(incorporated in Hong Kong with limited liability)*

*Executive directors:*

Mr. OU Bingchang (*Chairman*)  
Mr. LIANG Yi  
Mr. CHEN Guangsong  
Mr. LI Fei  
Mr. LIANG Ningguang  
Mr. XIAO Boyan

*Registered office:*

24th Floor, Yue Xiu Building  
160-174 Lockhart Road  
Wanchai  
Hong Kong

*Independent non-executive directors:*

Mr. YU Lup Fat Joseph  
Mr. LEE Ka Lun  
Mr. LAU Hon Chuen Ambrose

21st March, 2005

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

Reference was made to the announcement dated 28th February, 2005 issued by the Company in relation to certain continuing connected transactions between GZ Paper Holdings and GZ Paper.

On 17th October, 2002, GZ Paper entered into the Lease Contract and the Utilities Supply Contract with GZ Paper Holdings, pursuant to which GZ Paper leased from GZ Paper Holdings the Mill Premises; and GZ Paper Holdings supplied electricity, water and steam on 24-hour continual basis to the paper mill operated by GZ Paper on the Mill Premises.

At the time the Lease Contract and the Utilities Supply Contract were entered into, GZ Paper was a Sino-foreign equity joint venture in which the Company had 51% indirect equity interest and GZ Paper Holdings had 49% equity interest. Transactions under the Lease Contract and the Utilities Supply Contract therefore constituted continuing connected transactions of the Company under the then Chapter 14 of the Listing Rules. The Shareholders approved the Transactions in an extraordinary general meeting held on 25th November, 2002, and the Stock Exchange granted the Company a conditional waiver from strict compliance with the requirements of disclosure by press notice, circular

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## LETTER FROM THE BOARD OF DIRECTORS

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to shareholders and/or independent shareholders' approval under the then Chapter 14 of the Listing Rules in respect of such transactions. The previous waiver was granted for a period of three years and expired on 31st December, 2004. The Transactions constitute non-exempt continuing connected transactions under the current Listing Rules.

Yu Ming has been appointed as the independent financial adviser to advise the Independent Board Committee and the Shareholders on whether the terms of the Lease Contract and the Utilities Supply and whether the continuation of the Transactions at the Aggregate Annual Cap for each of the three financial years ending on 31st December, 2005, 2006 and 2007 are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. A copy of the letter from Yu Ming is set out on pages 14 to 21 of this circular.

The purpose of this circular is to provide the Shareholders with further information in relation to, among other things, the Lease Contract, the Utilities Supply Contract and their respective cap amount and the Transactions. A copy of the letter from the Independent Board Committee containing its advice to the Shareholders as to whether the terms of the Lease Contract and the Utilities Supply and whether the continuation of the Transactions at the Aggregate Annual Cap for each of the three financial years ending on 31st December, 2005, 2006 and 2007 are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole is set out on page 13 of this circular.

### **THE LEASE CONTRACT**

**Date:**

17th October, 2002

**Parties:**

Lessor: GZ Paper Holdings

Lessee: GZ Paper

**Leased Properties:**

Mill Premises

**Rental:**

Approximately RMB1.446 million (approximately HK\$1.358 million) per month, which was agreed between the parties at arm's length based on standard rental fees set by the Guangzhou Municipal People's Government for similar premises in the area after taking into account the market rental for similar premises in the area. In the event of adjustment of standard rental fees, land use taxes

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## LETTER FROM THE BOARD OF DIRECTORS

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and fees by the Guangzhou Municipal People's Government, the rental fee may be adjusted in accordance with the relevant regulations. Adjustments to the rental fee, however, may not exceed 5% of the previous year's rental. There has been no adjustment since the Lease Contract was first entered into.

The current rent and the basis for calculating the rent remain unchanged from that disclosed in the announcement of the Company dated 17th October, 2002 and the circular to the Shareholders dated 9th November, 2002.

**Term:**

20 years from 25th November, 2002 which was the date on which the conditions precedent to the Lease Contract were fully satisfied.

**Use:**

The leased properties shall be used by GZ Paper in its newsprint manufacturing business.

GZ Paper may not without the prior written consent of GZ Paper Holdings transfer, sublet or charge the leased properties.

### THE UTILITIES SUPPLY CONTRACT

**Date:**

17th October, 2002

**Parties:**

Supplier: GZ Paper Holdings

User: GZ Paper

**Utilities supplied:**

Electricity, water and steam on 24-hour continual basis to the paper mill operated by GZ Paper on the Mill Premises



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## LETTER FROM THE BOARD OF DIRECTORS

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### **Fees:**

The annual fees shall be agreed in advance between the parties in writing in respect of each year during the term of the Utilities Supply Contract, the percentage of adjustment of unit rates shall not exceed the percentage of adjustment of the market price and, subject to the special adjustments mentioned below, shall not exceed 10% of the unit rates for the previous year. In the event of special adjustments made by the Guangzhou Municipal People's Government of fees for the supply of electricity, water and steam, adjustments to fees payable under the Utilities Supply Contract shall be made in accordance with the relevant requirements.

The basis for estimating the annual fees remain unchanged from that disclosed in the announcement of the Company dated 17th October, 2002 and the circular to the Shareholders dated 9th November, 2002.

The annual fees for 2005 is estimated to be approximately RMB287.78 million which is determined by reference to the previous transactions in the period from 1st January, 2004 to 31st December, 2004 i.e. the consumption of the utilities by GZ Paper in the preceding year and the unit rates set for 2005 as stated below. Such unit rates are determined by reference to the applicable regulations of the Guangzhou Municipal People's Government after taking into account the production cost or the market price for provision of such utilities on an industrial basis.

Unit rates for 2005 for such utilities are set out as follows:

<b>Utility</b>	<b>Unit Rate</b>
Electricity:	RMB0.382 per kwh
Turbid water:	RMB0.108 per cubic metre
Clean water:	RMB0.4005 per cubic metre
Chemically treated water:	RMB4.59 per cubic metre
Steam:	RMB31.3 per GJ

### **Term:**

20 years from 25th November, 2002 which is the date on which the conditions precedent to the Utilities Supply Contract were fully satisfied.

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## LETTER FROM THE BOARD OF DIRECTORS

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### COMPLIANCE WITH PREVIOUS WAIVER

Under the terms of the previous waiver, the maximum aggregate annual value of the Transactions for each of the three financial years of the Company ended 31st December, 2004 was RMB319.13 million (approximately HK\$301.07 million, the exchange rate of RMB106=HK\$100 was adopted in computing the HK\$ equivalent). The Company has fully complied with the terms of the previous waiver as the relevant cap amount has not been exceeded for each of the three years ended 31st December, 2004. A summary of the amounts of the Transactions for the two years ended 31st December, 2004 is set out as follows (approximate equivalent in HK\$ in brackets):

	<b>Year ended 31st December, 2003</b> <i>(Note 1)</i>	<b>1st January, 2004 to 31st December, 2004</b> <i>(Note 2)</i>
Rent under Lease Contract <i>(Note 3)</i>	RMB17,350,011 (HK\$16,214,964)	RMB17,350,011 (HK\$16,291,090)
Utilities Supply Contract	RMB181,993,940 (HK\$170,087,794)	RMB259,527,779 <i>(Note 4)</i> <u>(HK\$243,688,055)</u>
Total	RMB199,343,951 (HK\$186,302,758)	RMB276,877,790 (HK\$259,979,145)

*Note 1:* The figures set out in this column are extracted from the audited accounts of the Group for the year ended 31st December, 2003. (The exchange rate of RMB107=HK\$100 was adopted in computing the HK\$ equivalent.)

*Note 2:* The figures set out in this column are extracted from the unaudited management accounts of the Group for the year ended 31st December, 2004.

*Note 3:* There has been no increase in rent.

*Note 4:* This figure is based on unaudited management accounts and is subject to audit adjustment.

### BENEFITS OF THE TRANSACTIONS

Presently the Group is principally engaged in (i) property investment and development, (ii) manufacture and sale of newsprint (through GZ Paper), and (iii) operation of toll roads and bridges. GZ Paper is principally engaged in manufacture and sale of newsprint.

The Mill Premises and the assets which generate the utilities supplied pursuant to the Utilities Supply Contract were transferred by GZ Paper to GZ Paper Holdings on 25th November, 2002 in order to increase the competitiveness of GZ Paper as part of a corporate restructuring exercise. The Lease Contract and the Utilities Supply Contract were entered into to ensure that operations of GZ Paper's newsprint business will remain unaffected after such transfer. GZ Paper's newsprint business is entirely dependent on the continuation of the Transactions. The Mill Premises are the manufacturing and operating premises of GZ Paper. While it may be possible for GZ Paper to locate alternative

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## LETTER FROM THE BOARD OF DIRECTORS

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utilities supplies from other sources, the Directors do not consider that alternative suppliers will be able to offer terms which are more favourable than the terms under the Utilities Supply Contract. The Directors (including the independent non-executive Directors) consider that the Lease Contract and the Utilities Supply Contract remain fair and reasonable, was entered into in the ordinary and usual course of business of GZ Paper on normal commercial terms, and continue to be in the best interests of the Company and the Shareholders as a whole. It may not be beneficial to the interest of the Company or the Shareholders to terminate the existing arrangements and instead enter into short term operating leases and supply contracts as GZ Paper will be put in a precarious position if it cannot secure renewal of the lease or supply contract upon expiry, particularly given the recent volatility in energy supplies.

### REQUIREMENTS OF THE LISTING RULES

GZ Paper is a joint stock company in which the Company has 51% indirect equity interest and GZ Paper Holdings has 47.25% equity interest. It is expected that the revenue ratio and the consideration ratio for the Transactions for each of the three years ending on 31st December, 2007 will exceed the relevant percentage of 2.5% on an annual basis and the annual consideration is more than HK\$10,000,000 under Rule 14A.34, and will therefore constitute non-exempt continuing connected transactions of the Company under Rule 14A.35 of the Listing Rules.

The Company has obtained written approval under Rule 14A.43 of the Listing Rules from a closely allied group of Shareholders, namely Yue Xiu Enterprises (Holdings) Limited and its associates, collectively holding approximately 50.8% in nominal value of the issued share capital of the Company as at the Latest Practicable Date giving the right to attend and vote at the general meeting of the Company to approve continuation of the Transactions at the cap amount described below if one were to be held. Yue Xiu Enterprises (Holdings) Limited has direct holding of 10,928,184 shares in the Company and is deemed by the SFO to be interested in 3,218,507,064 shares in the Company as a result of its indirect holding of such shares through its subsidiaries (namely, Yue Xiu Finance Company Limited (44,492,000 shares), Goldstock International Limited (35,233,160 shares), \*Novena Pacific Limited (565,683,000 shares), \*Bosworth International Limited (2,279,312,904 shares), \*Morrison Pacific Limited (158,049,000 shares) and \*Greenwood Pacific Limited (135,737,000 shares)).

*\* each of the named companies is a special purpose vehicle set up to hold interest in the relevant shares*

None of Yue Xiu Enterprises (Holdings) Limited and its aforementioned associates are required to abstain from voting if the Company were to convene a general meeting to approve continuation of the Transactions at the cap amount described below as the only connected person of the Company in relation to the Transactions is GZ Paper Holdings which does not (including through its associates) hold any shares in the Company.

The Company has applied to the Stock Exchange for a waiver under Rule 14A.43 of the Listing Rules for written independent Shareholders' approval in lieu of holding a general meeting.

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## LETTER FROM THE BOARD OF DIRECTORS

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The Aggregate Annual Cap for each of the three financial years ending on 31st December, 2005, 2006 and 2007 is RMB416.09 million (approximately HK\$390.69 million). This cap amount has been determined with reference to (i) the annual fees payable by GZ Paper for 2005 under the Lease Contract and the Utilities Supply Contract based on standard fee rates set by the Guangzhou Municipal People's Government after taking into account market prices for similar premises and utilities or the cost of production for such utilities; (ii) adjustments which may be made in accordance with the market price pursuant to the Utilities Supply Contract; (iii) adjustments which may be made in accordance with the requirements of the Guangzhou Municipal People's Government pursuant to the Lease Contract and the Utilities Supply Contract; (iv) GZ Paper's estimate of its turnover for the coming three years ending on 31st December, 2007; and (v) based on the assumption that there will be no reduction in the annual fees.

The Aggregate Annual Cap is calculated as follows:

**(a) Based on the Lease Contract:**

annual rent for 2005	:	approximately RMB17.352 million (i.e. RMB1.446 million x 12 months)
assumed increase of 5% of previous year's annual rent for 2006 and 2007	:	RMB17.352 million x 1.05 x 1.05 = approximately RMB19.13 million

**(b) Based on the Utilities Supply Contract:**

annual fees for 2005	:	approximately RMB287.78 million
assumed increase of 10% of previous year's annual fees for 2006 and 2007	:	RMB287.78 million x 1.1 x 1.1 = approximately RMB348.21 million
margin of approximately 14% to take into account special adjustments made by the Guangzhou Municipal People's Government and the estimate of turnover of GZ Paper for 2006 and 2007	:	RMB348.21 million x 1.14 = approximately RMB396.96 million

Based on the above calculations, the Aggregate Annual Cap for each of the three financial years ending on 31st December, 2005, 2006 and 2007 is RMB416.09 million (i.e. RMB19.13 million + RMB396.96 million) (approximately HK\$390.69 million).

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## LETTER FROM THE BOARD OF DIRECTORS

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The term of both the Lease Contract and the Utilities Supply Contract is 20 years. Under Rule 14A.35(1) of the Listing Rules, a continuing connected transaction which is not fully exempted must be governed by an agreement for a fixed period not exceeding three years unless there are special circumstances requiring a longer duration. The Directors are of the view that the special circumstances in this case are:

- (a) the Lease Contract and the Utilities Supply Contract were part and parcel of the corporate restructuring of GZ Paper which had been approved by the Shareholders on 25th November, 2002. A key feature of the corporate restructuring involved the disposal by GZ Paper to GZ Paper Holdings of, amongst other things, the Mill Premises, the plants and machinery for the generation of electricity, water and steam for use and consumption by the paper mill operated by GZ Paper. To secure the use of the Mill Premises and the continuous supply of electricity, water and steam for the uninterrupted operation of the paper mill, which is the sole business carried on by GZ Paper, GZ Paper negotiated for both the Lease Contract and the Utilities Supplies Contract to run for a term of 20 years, such that both contracts would almost co-terminate with the term of operation of GZ Paper;
- (b) the Lease Contract and the Utilities Supply Contract as approved by the Shareholders contained clear provisions and limitations on price increases, which the Directors consider to be fair and reasonable and in the interests of the Shareholders as a whole;
- (c) the Lease Contract and the Utilities Supply Contract were entered into prior to introduction of Rule 14A.35(1), they do not provide for unilateral termination without cause prior to the agreed term of 20 years, there is no assurance that any negotiations with GZ Paper Holdings to shorten the term of both contracts would be successful, and even if GZ Paper Holdings agrees to replace the subsisting contracts with three-year term contracts there is no assurance that they will be on the same terms and conditions; and
- (d) the Lease Contract and the Utilities Supply Contract secures the premises and infrastructure for GZ Paper's production premises, three-year term contracts will expose GZ Paper to the risk of having to relocate causing severe disruption to its operations if such contracts cannot be renewed upon expiry or if such contracts are renewed on less favourable terms and conditions.

In view of the above special circumstances, for the purposes of compliance with Rule 14A.35(1) which came into operation after the Transactions were first entered into, the Directors are of the view that in the context of corporate reorganizations involving sale or purchase of substantial production assets, it is normal business practice to enter into long term leases in relation to those production assets to secure uninterrupted operation of the business utilizing them, and it is also normal business practice for companies engaged in utilities supply to enter into long term supply contracts.

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## LETTER FROM THE BOARD OF DIRECTORS

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If the cap amount is at any time exceeded, or if the terms of the Lease Contract or the Utilities Supply Contract are altered, or if GZ Paper enters into new arrangements or agreements with GZ Paper Holdings or any other connected persons during the period from 1st January, 2005 to 31st December, 2007, the Company will comply with the applicable provisions of Chapter 14A of the Listing Rules governing connected transactions unless it applies for and obtains relevant waiver(s) from the Stock Exchange.

### RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee as set out on page 13 of this circular and the letter from Yu Ming as set out on pages 14 to 21 of this circular.

Having taken into account the advice of Yu Ming, the Independent Board Committee considers the terms of the Lease Contract and the Utilities Supply and the continuation of the Transactions at the Aggregate Annual Cap for each of the three financial years ending on 31st December, 2005, 2006 and 2007 are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

### FURTHER INFORMATION

Further information of the Company is set out in Appendix I to this circular for your information.

By order of the board of Directors  
**Guangzhou Investment Company Limited**  
**OU Bingchang**  
*Chairman*



越秀投資有限公司

**GUANGZHOU INVESTMENT COMPANY LIMITED**

*(incorporated in Hong Kong with limited liability)*

21st March, 2005

*To the Shareholders*

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular dated 21st March, 2005 of the Company (“Circular”) of which this letter forms part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider the terms of the Lease Contract and the Utilities Supply Contract and their respective cap amount and to advise the Shareholders whether, in our opinion, the terms of the Lease Contract and the Utilities Supply and the continuation of the Transactions at the Aggregate Annual Cap for each of the three financial years ending on 31st December, 2005, 2006 and 2007 are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Yu Ming has been appointed to advise us and the Shareholders in respect of the terms of the Lease Contract and the Utilities Supply Contract and the Transactions.

We wish to draw your attention to the letter from the board of Directors set out on pages 4 to 12 of the Circular which contains, inter alia, information about the Lease Contract and the Utilities Supply Contract and the Transactions, and the letter of advice from Yu Ming set out on pages 14 to 21 of the Circular which contains its advice in respect of the terms of the Lease Contract and the Utilities Supply Contract and the Transactions.

Having taking into account the advice of Yu Ming, we consider the terms of the Lease Contract and the Utilities Supply and the continuation of the Transactions at the Aggregate Annual Cap for each of the three financial years ending on 31st December, 2005, 2006 and 2007 are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole.

Yours faithfully,

**Independent Board Committee**

**YU Lup Fat Joseph    LEE Ka Lun    LAU Hon Chuen Ambrose**

*Independent non-executive directors*



**YU MING INVESTMENT MANAGEMENT LIMITED**

ROOM 1001, 10/F, AON CHINA BUILDING, 29 QUEEN'S ROAD CENTRAL, HONG KONG

DATE 21st March, 2005

Guangzhou Investment Company Limited  
24th Floor  
Yue Xiu Building 160-174  
Lockhart Road  
Wanchai  
Hong Kong

To the Independent Board Committee and the Shareholders

Dear Sir or Madam,

**CONTINUING CONNECTED TRANSACTIONS**

**INTRODUCTION**

We have been appointed to advise the Independent Board Committee and the Shareholders in respect of the waiver application in relation to the Lease Contract and the Utilities Supply Contract, with a particular emphasis on the cap amount and implications under Rule 14A.35 of the Listing Rules, details of which are set out in the Letter from the Board contained in the circular to the Shareholders dated 21st March, 2005 (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

In formulating our opinion, we have relied on the statements, information, opinions and representations contained in the Circular and the information, representations and opinions provided to us by the Directors. We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and all information, representations and opinions which have been provided by the Directors for which they are solely responsible are, to the best of their knowledge, true and accurate at the time they were made and continue to be so on the date of this letter.

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any fact or circumstance which would render the information provided and the representations and opinions made to us untrue, inaccurate or misleading. Having made all reasonable enquiries, the Directors have further confirmed that, to the best of their knowledge, they believe there are no other facts or representations the omission of which would make any statement in the Circular, including this letter, misleading. We have not, however, carried out any independent verification of the information provided by the Directors, nor have we conducted an independent investigation into the business and affairs of the Group or GZ Paper Holdings.



## PRINCIPAL FACTORS AND REASONS CONSIDERED

### Background Information of The Transactions

On 17th October 2002 GZ Paper entered into the Transfer Agreement, the Lease Contract and the Utilities Supply Contract with GZ Paper Holdings. Pursuant to the Transfer Agreement, GZ Paper had transferred all its rights in the Mill Premises which were owned by GZ Paper in return for GZ Paper Holdings waiving the liabilities owed by GZ Paper to the amount of approximately RMB 660 million (approximately HK\$623 million at the time of the Transfer Agreement). At the time of the Transfer Agreement, the Lease Contract and the Utilities Supply Contract were entered into between GZ Paper and GZ Paper Holdings, GZ Paper was owned as to 49 per cent. by GZ Paper Holdings and 51 per cent. indirectly by the Company. Pursuant to the Lease Contract, GZ Paper Holdings agreed to lease the Mill Premises to GZ Paper for a term of 20 years while the Utilities Supply Contract stated that GZ Paper Holdings agreed to supply electricity, water and steam to GZ Paper, also for a term of 20 years. As a result, the Transfer Agreement constituted connected transactions for the Company, while the Lease Contract and the Utilities Supply Contract constituted continuing connected transactions of the Company.

On 25th November, 2002, the entering into of the Transfer Agreement, the Lease Contract and the Utilities Supply Contract were approved in an extraordinary meeting of the Shareholders. Subsequent to the approval by the Shareholders of the transactions, the Stock Exchange had granted a conditional waiver from strict compliance with certain disclosure requirements of the Listing Rules in respect of the Lease Contract and the Utilities Supply Contract. Such waiver expired on 31st December, 2004.

Shareholders' approval on such cap amount for the aggregate value of the Transactions under the Lease Contract and Utilities Supply Contract for the three financial years ending 31st December, 2005, 2006 and 2007 is required pursuant to 14A.35(4) of the Listing Rules.

### The Cap Amount

#### *The Lease Contract*

On 17th October, 2002, GZ Paper entered into the Lease Contract with GZ Paper Holdings pursuant to which GZ Paper will lease the Mill Premises with total gross floor area of approximately 142,344 square metres from GZ Paper Holdings for a monthly rental of approximately RMB1.446 million (approximately HK\$1.358 million), subject to annual adjustment of no more than 5 per cent., for a term of 20 years.

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## LETTER FROM YU MING

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### *Prevailing Market Rates*

There has been no adjustment to the rental payable under the Lease Contract since it was entered into in 2002. Based on the research we have conducted on the rental market of industrial sites in the Haizhu District<sup>1</sup>, Guangzhou, where the Mills Premises are situated, the rental offers range from approximately RMB10 (approximately HK\$9.39) to RMB20 (approximately HK\$18.78) per square metre per month. The current rental for the Mill Premises of approximately RMB10.16 (approximately HK\$9.54) per square metre per month is in the low end of the market.

### *The Cap Amount*

As at the date of this letter, the rental for 2005 of the Mill Premises have already been set at the historical level of RMB17.352 million (approximately HK\$16.29 million) per annum. Since the current rental represents a discount to the average prevailing market rate, there is no guarantee that GZ Paper will enjoy the same level of discount in the future. We shall assume the maximum rental increase of 5 per cent. per annum will be sought in financial years 2006 and 2007 in accordance with the terms of the Lease Contract, the maximum amount of rental payable pursuant to the Lease Contract in financial year 2007 will be approximately RMB19.13 million (approximately HK\$17.96 million). On this basis, we believe the terms and the cap on the Lease Contract are fair and reasonable and are in the interest of the Shareholders and the Company as a whole.

### *The Utilities Supply Contract*

On 17th October, 2002, GZ Paper entered into the Utilities Supply Contract with GZ Paper Holdings pursuant to which GZ Paper Holdings will supply electricity, turbid water, clean water, chemically treated water and steam to GZ Paper for a term of 20 years. Similar to the Lease Contract, the annual fees shall be agreed in writing in advance between GZ Paper and GZ Paper Holdings in respect of each year during the term of the Utilities Supply Contract. The percentage of adjustment of unit rates shall not exceed the percentage of adjustment of the market price and shall not exceed 10 per cent. of the unit rates for the previous year, subject to special circumstances.

<sup>1</sup> Based on information available on [www.2house114.com](http://www.2house114.com), [www.chinaworkshops.com](http://www.chinaworkshops.com) and [www.jinti.com](http://www.jinti.com), which are websites specialize in PRC properties, and news articles about the housing market in the Haizhu District.

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## LETTER FROM YU MING

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### *Prevailing Market Rates*

According to 廣州市物價局 (the Price Bureau of Guangzhou), the latest official guidance price published in 2004<sup>2</sup> for industrial use fresh water is RMB1.25 (approximately HK\$1.17) per cubic metre, represented a 212 per cent. premium compared to RMB0.4005 (approximately HK\$0.376) per cubic metre enjoyed by GZ Paper in 2004.

At the same time, the official guidance price for electricity with effective from 15th June, 2004 ranges from RMB0.3380 (approximately HK\$0.317) to RMB0.7701 (approximately HK\$0.723) per kilowatt hour depending on the time of use, compared to RMB0.316 (approximately HK\$0.296) per kilowatt hour flat enjoyed by GZ Paper in 2004.

Guidance prices for turbid water, chemically treated water and steam are not available. However, based on statistics compiled by 廣東省統計局 (the Bureau of Statistics of Guangdong Province) released on 18th January, 2005, we noted that the price index for combustion fuel have risen by 20.54 per cent. from 1st January 2003 to 30th November, 2004. We believe this should reflect the change in the cost of steam as the production of steam mainly involved the combustion of coal. At the same time, we noted that the unit rate for steam supplied by GZ Paper Holdings have increased by 19.51 per cent. between 2003 and 2005, which is roughly in line with the level of change as shown by the price index for combustion fuel.

### *The Cap Amount*

The cap amount of RMB396.96 million (approximately HK\$372.73 million) for the Utilities Supply Contract was determined based on three critical assumptions: (1) the annual fee of RMB287.78 million (approximately HK\$270.22 million) for 2005; (2) the maximum amount of fee adjustment stipulated in the Utilities Supply Contract of 10 per cent., subject to special circumstances, and there will be no reduction in the unit rates; and (3) the organic business growth of GZ Paper.

<sup>2</sup> Date of publication was not shown.

## LETTER FROM YU MING

The annual fee for 2005 was agreed upon in 2004 between GZ Paper and GZ Paper Holdings based on the following assumptions:

	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>Change over two years</b>
Level of Production (tonnes)	320,000	300,000	260,000	+23.08%
<i>Unit Rate</i>				
Clean Water (RMB/Cubic Metre)	0.4005	0.4005	0.4005	—
Turbid Water (RMB/Cubic Metre)	0.1080	0.1080	0.1080	—
Chemically Treated (RMB/Cubic Metre)	4.5900	4.5900	4.5900	—
Electricity (RMB/Kilowatt Hour)	0.3820	0.3160	0.2890	+32.18%
Steam (RMB/Gigajoule)	31.300	28.800	26.190	+19.51%
Annual fee (RMB Million)	287.78	259.53	181.99	+58.13%

As shown in the table above, the annual fee for 2005 under the Utilities Supply Contract represents a 58 per cent. increase from 2003. This was mainly due to the increased production level and the increase in unit prices paid for electricity and steam, which together account for over 95 per cent. of the fee payable pursuant to the Utilities Supply Contract.

We noted that the unit price of electricity paid by GZ Paper is still at the low end of the guidance made by the Guangzhou Government and the level of increase in the unit price of steam is lower than the level of price change of combustion fuel. As a result, and based on the projected level of production for 2005, we are of the view that the fee set for 2005 is fair and reasonable.

At the same time, we also believe it is fair for the Company to assume GZ Paper Holdings will, in the coming two years, seek the maximum level of increase permitted under the Utilities Supply Contract due to the disparity between the guidance prices from the Government and the actual level charged.

Finally, the organic growth of GZ Paper is assumed to be just under seven per cent. per annum for the next two years, which are conservative compared to the level of production growth experienced in the past two financial years of 15.38 per cent. and 4.46 per cent. for the financial years ended 31st December 2004 and 2003 respectively. We are of the opinion that the assumption on organic growth is fair and reasonable.

Having considered the above, we are of the opinion that the terms and the cap of the Utilities Supply Contract are fair and reasonable so far as the interest of the Shareholders is concerned.

## The Term of the Utilities Supply Contract and the Lease Contract

We shall opine on the respective term of the Utilities Supply Contract and the Lease Contract by focusing on two areas. Firstly, the reason a longer period is required for both contract. Secondly, whether it is a normal business practice for the contracts of this type to be of such duration.

As stated under the section headed “Background Information of the Transactions” in this letter of advice, the Lease Contract and the Utilities Supply Contract were entered into as a result of a corporate restructuring aimed to raise the competitiveness of GZ Paper through a debt-for-asset swap in which GZ Paper Holdings had forgiven approximately RMB 660 million (approximately HK\$623 million at the time of the Transfer Agreement) in debt owed by GZ Paper for the Mill Premises. As a condition for GZ Paper Holdings to waive the substantial amount of liabilities, GZ Paper had to enter into the Lease Contract and the Utilities Supply Contract for a term of 20 years to ensure GZ Paper Holdings of a constant revenue stream from the Mill Premises. The Directors have also confirmed that GZ Paper Holdings has fulfilled its obligations under the Utilities Supply Contract by offering continuous utilities supply since the contract was entered into. Therefore, with an aim to ensure stability on the business operations of GZ Paper which has so far proven to be mutually beneficial to both GZ Paper and GZ Paper Holdings, we believe a longer term for the Lease Contract and the Utilities Supply Contract is desirable.

Moreover, it is not uncommon for PRC companies to enter into service agreements and lease agreements with long duration subsequent to corporate restructuring for land and assets involved in such transactions by companies listed on the PRC stock exchanges with their respective connected parties within the meaning of the relevant PRC listing rules. The following is a list of recent comparable transactions which we obtained from the website [www.factiva.com](http://www.factiva.com), a news search service provided by Dow Jones and Reuters<sup>3</sup>:

1. On 3rd August, 2004, PRC listed 雲南錫業股份有限公司 entered into a lease agreement and a service agreement with 雲南錫業集團有限責任公司 for a contract term of 20 years and 30 years respectively following the sale of certain mining assets from 雲南錫業集團有限責任公司 to 雲南錫業股份有限公司. Pursuant to such lease agreement, 雲南錫業股份有限公司 will lease from 雲南錫業集團有限責任公司 land in which the assets involved in the transaction are situated while the service agreement stipulates that 雲南錫業集團有限責任公司 shall provide 雲南錫業股份有限公司 with electricity, water, maintenance, transportation, communications, environmental protection and hygiene services;
2. In June, 2001 PRC listed 無錫商業大廈股份有限公司 entered into a supplemental lease agreement with its controlling shareholders for a term of 30 years in preparation for the listing of its shares on the Shanghai Stock Exchange.

<sup>3</sup> The list of transactions shown here is the exhaustive result of keyword searches conducted on “utilities supply contract”, “service contract”, “integrated service contract”, “lease contract”, “20-year term” and “30-year term” for content from 1st January, 2000 onwards in which comparable transactions are identified. Transactions shown in the keyword search which we cannot assured of their comparability to the Transactions have not been included.

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## LETTER FROM YU MING

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3. On 6th December, 2000, prior to the listing of its shares on the Shanghai Stock Exchange, 江蘇長電科技股份有限公司 entered into a lease contract with its shareholder 江陰長江電子有限公司 for a period of 20 years for premises in which the production facilities of 江蘇長電科技股份有限公司 are based;

We have also noted that contracts in relation to utilities supply can be of long duration as shown in the following list we obtained from [www.factiva.com](http://www.factiva.com) and the website of the Stock Exchange<sup>4</sup>:

1. On 11th June, 2004, Zhanjiang Xinao, a subsidiary of Hong Kong-listed company Xinao Gas Holdings Limited, was granted a contract for 30 years to supply piped gas to Zhanjiang City in Guangdong Province;
2. On 7th August, 2003, Changsha Xinao, a subsidiary of Hong Kong-listed company Xinao Gas Holdings Limited, was granted a contract for 20 years to supply piped gas to Changsha City Planning Area in Hunan Province;
3. On 15th April, 2004, Singapore-listed company Devotion Eco-Thermal Limited was awarded a contract for 20 years to supply heat to 甘肅省科教城.

Based on the above, we believe the respective term of the Lease Contract and the Utilities Supply Contract are fair and reasonable and that there are precedents for PRC companies undergoing corporate reorganization to enter into long-term leases and service contracts and companies engaged in utilities supply to enter into long-term supply contracts.

As your financial adviser, we are obliged to highlight that both the Lease Contract and the Utilities Supply Contract have been approved by the Shareholders on 25th November, 2002, prior to the introduction of Rule 14A.35(1) which stated that unless in special circumstances, no such agreement should be fixed for more than three years. The Company could have renegotiated the terms of the contracts despite our belief that the capital reorganization described above constituted a special circumstances. However, we are of the view that the risks involved in renegotiating the Lease Contract and Utilities Supply Contract far outweigh the benefits of full compliance with Rule 14A.35(1) as the Company can have no assurance to the Shareholders that GZ Paper Holding will not demand amendments to other terms of the contract, especially the price adjustment mechanisms stipulated in the current Lease Contract and the Utilities Supply Contract.

<sup>4</sup> The parties involved in this list of transactions are, to the best of our knowledge, not connected parties within the meanings of the Listing Rules. We are of the view that the transactions in the list above are comparable to the Transactions.

The list shown above is the exhaustive result of keyword searches we conducted on [www.factiva.com](http://www.factiva.com) on “heat supply contract”, “gas supply contract”, “20-year term” and “30-year term” from 1st January, 2000 onwards. This is followed by a search on the announcements issued by Xinao Gas Holdings Limited, a company listed on the Stock Exchange engaged in the supply of natural gas and other related operations to townships and cities in the PRC. The latest three transactions from the two searches are shown in the above list.

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## LETTER FROM YU MING

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### RECOMMENDATION

Having taken into account the information and representations provided to us and the above principal factors, we are of the opinion that the terms and the cap amount of the Lease Contract and the Utilities Supply Contract are fair and reasonable so far as the Company and the Shareholders are concerned. Accordingly, we recommend the Shareholders to vote in favour of the resolution to approve the cap amount of the Lease Contract and the Utilities Supply Contract.

Yours faithfully,  
For and on behalf of  
**YU MING INVESTMENT MANAGEMENT LIMITED**  
**Warren Lee**  
*Director*

**1. RESPONSIBILITY STATEMENT**

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

**2. DISCLOSURE OF DIRECTORS' INTERESTS FOR THE COMPANY**

Save as disclosed below, as at the Latest Practicable Date, none of the Directors or chief executives (if any) of the Company had, or was deemed to have any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO including interests and short positions which they were taken or deemed to have under such provisions of the SFO or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

**(a) Long positions in shares of the Company and its associated corporations**

<b>Directors</b>	<b>Interests in the Company or its associated corporation</b>	<b>Capacity in holding interest</b>	<b>Approximate % of shareholding in the same class of securities</b>	<b>Number and class of securities</b>
Mr. Liang Ningguang	The Company	Beneficial owner	0.01	400,000 shares
Mr. Xiao Boyan	The Company	Beneficial owner	0.01	500,000 shares
Mr. Lee Ka Lun	The Company	Beneficial owner	0.02	1,050,000 shares



## (b) Long positions in underlying shares of equity derivatives of the Company and its associated corporations

Directors	Interests in the Company or its associated corporation	Capacity in holding interest	Date of grant (Note)	Exercise price per share HK\$	Number of outstanding share options
Mr. Ou Bingchang	The Company	Beneficial owner	02/06/2003	0.5400	9,000,000
Mr. Liang Yi	The Company	Beneficial owner	02/06/2003	0.5400	7,000,000
Mr. Chen Guangsong	The Company	Beneficial owner	02/06/2003	0.5400	8,000,000
Mr. Li Fei	The Company	Beneficial owner	02/06/2003	0.5400	7,000,000
Mr. Liang Ningguang	The Company	Beneficial owner	02/06/2003	0.5400	7,000,000
Mr. Xiao Boyan	The Company	Beneficial owner	02/06/2003	0.5400	7,000,000
Mr. Yu Lup Fat Joseph	The Company	Beneficial owner	02/06/2003	0.5400	3,500,000
Mr. Lee Ka Lun	The Company	Beneficial owner	02/06/2003	0.5400	2,450,000

*Note:* The share options are exercisable from 2nd June, 2003 to 1st June, 2013, of which a maximum of up to (i) 30 per cent.; and (ii) 60 per cent. (inclusive of any options exercised under (i)) thereof are exercisable during the period (i) up to the first anniversary; and (ii) up to the second anniversary of the date of grant, respectively.

As at the Latest Practicable Date, none of the Directors or the expert named at paragraph 4(a) below in this circular had any direct or indirect interests in any assets which have since 31st December, 2003 (being the date to which the latest published audited consolidated accounts of the Group were made up) been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors and their respective associates had any competing interest with the Group.

### 3. SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

Save as disclosed below, as at the Latest Practicable Date, so far as is known to any Director or chief executive (if any) of the Company, no person (not being a Director or chief executive (if any) of the Company nor any member of the Group), has an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO) or who is directly or indirectly interested in 10 per cent. or more of the nominal value of any class of shares carrying rights to vote in all circumstances at general meetings of the Company.

Name	Capacity in holding interest	Long/short position	Approximate % of shareholding in the same class of securities	Number and class of securities held
Yue Xiu Enterprises (Holdings) Limited ( <i>Note 1</i> )	Beneficial owner and interest of controlled corporation	Long position	50.76	3,229,435,248 shares
JPMorgan Chase & Co. ( <i>Note 2</i> )	Investment manager and approved lending agent	Long position	6.96	442,552,000 shares

*Notes:*

- Yue Xiu Enterprises (Holdings) Limited has direct holding of 10,928,184 shares in the Company and is deemed by the SFO to be interested in 3,218,507,064 shares in the Company as a result of its indirect holding of such shares through its wholly-owned subsidiaries, details of which were as follows:

Name	Capacity in holding interest	Long/short position	Number and class of securities held
Excellence Enterprises Co., Ltd. (“ <b>Excellence</b> ”) ( <i>Note i</i> )	Interest of controlled corporation	Long position	3,174,015,064 shares
Bosworth International Limited	Beneficial owner	Long position	2,279,312,904 shares
Sun Peak Enterprises Ltd. (“ <b>Sun Peak</b> ”) ( <i>Note ii</i> )	Interest of controlled corporation	Long position	565,683,000 shares
Novena Pacific Limited (“ <b>Novena</b> ”)	Beneficial owner	Long position	565,683,000 shares

Name	Capacity in holding interest	Long/short position	Number and class of securities held
Shine Wah Worldwide Limited ("Shine Wah") (Note iii)	Interest of controlled corporation	Long position	158,049,000 shares
Morrison Pacific Limited ("Morrison")	Beneficial owner	Long position	158,049,000 shares
Perfect Goal Development Co., Ltd. ("Perfect Goal") (Note iv)	Interest of controlled corporation	Long position	135,737,000 shares
Greenwood Pacific Limited ("Greenwood")	Beneficial owner	Long position	135,737,000 shares
Seaport Development Limited ("Seaport") (Note v)	Interest of controlled corporation	Long position	35,233,160 shares
Goldstock International Limited ("Goldstock")	Beneficial owner	Long position	35,233,160 shares
Yue Xiu Finance Company Limited	Beneficial owner	Long position	44,492,000 shares

- i. Excellence, a wholly-owned subsidiary of Yue Xiu Enterprises (Holdings) Limited, is deemed by the SFO to be interested in 3,174,015,064 shares in the Company as a result of its indirect holding of such shares through its wholly-owned subsidiaries.
  - ii. Sun Peak is deemed by the SFO to be interested in 565,683,000 shares in the Company as a result of its indirect holding of such shares through its wholly-owned subsidiary, Novena.
  - iii. Shine Wah is deemed by the SFO to be interested in 158,049,000 shares in the Company as a result of its indirect holding of such shares through its wholly-owned subsidiary, Morrison.
  - iv. Perfect Goal is deemed by the SFO to be interested in 135,737,000 shares in the Company as a result of its indirect holding of such shares through its wholly-owned subsidiary, Greenwood.
  - v. Seaport is deemed by the SFO to be interested in 35,233,160 shares in the Company as a result of its indirect holding of such shares through its wholly-owned subsidiary, Goldstock.
2. The capacity of JPMorgan Chase & Co. in holding the 442,552,000 shares in the Company is, as to 417,686,000 shares, as investment manager and, as to 24,866,000 shares, as approved lending agent.

#### 4. EXPERT'S DISCLOSURE OF INTEREST AND CONSENT

- (a) The following are the qualifications of the expert who has given opinion or advice contained in this circular:

<b>Name</b>	<b>Qualification</b>
Yu Ming	a deemed licensed corporation for types 1, 4, 6 and 9 regulated activities under the SFO

- (b) As at the Latest Practicable Date, Yu Ming has no direct or indirect shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.
- (c) Yu Ming has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and reference to its name in the form and context in which it appears.
- (d) The letter and advice given by Yu Ming is given as of the date of this circular for incorporation herein.

#### 5. SERVICE CONTRACTS

As at the Latest Practicable Date, each of Messrs. Ou Bingchang and Liang Yi had entered into a service agreement with GZI Transport Limited, a subsidiary of the Company which, after an initial fixed term of one year commencing on 8th January, 2003 and 28th February, 2003 respectively, had been extended for a further term of two years up to 2006 unless terminated sooner by GZI Transport Limited giving to the relevant Director three months' prior written notice or by the relevant Director giving to GZI Transport Limited six months' prior written notice.

Save as disclosed above, none of the Directors had, as at the Latest Practicable Date, a service contract or a proposed service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

#### 6. NO MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st December, 2003, the date to which the latest published consolidated audited accounts of the Group were made up.

#### 7. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of interpretation.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours on any weekday (Saturdays and public holidays excepted) at the registered office of the Company at 24/F., Yue Xiu Building, 160-174 Lockhart Road, Wanchai, Hong Kong up to and including 6th April, 2005:

- (a) the Transfer Agreement;
- (b) the Lease Contract;
- (c) the Utilities Supply Contract;
- (d) the letter from Yu Ming to the Shareholders and the Independent Board Committee as set out on pages 14 to 21 of this circular;
- (e) the memorandum and articles of association of the Company;
- (f) the written consent referred to in paragraph 4 of this Appendix; and
- (g) the service contracts referred to in paragraph 5 of this Appendix.