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## China Assets (Holdings) Limited

(Incorporated in the Hong Kong Special Administrative Region of the People's Republic of China)

### Major and Connected Transaction

## First Shanghai Investments Limited

(Incorporated in the Hong Kong Special Administrative Region of the People's Republic of China)

### Discloseable and Connected Transaction

### Disposal by China Assets (Holdings) Limited of certain investment interests to First Shanghai Investments Limited and Distribution of capital by China Assets (Holdings) Limited

- CAHL and FSIL entered into the Agreement on 19th May, 2000 pursuant to which CAHL agreed to sell and FSIL agreed to acquire CAHL's effective equity interest in 10 investee companies in the PRC for a total consideration of US\$15 million (approximately HK\$116.3 million).
- FSIL is indirectly interested in approximately 33.83% of CAHL whereas CAHL is beneficially interested in approximately 20.42% of FSIL. The Agreement constitutes a major and connected transaction for CAHL and a discloseable and connected transaction for FSIL respectively and is therefore subject, among other things, to the approval of the respective independent shareholders of CAHL and FSIL.
- Subject to completion of the Agreement and approval of the Court of a Capital Distribution and the necessary reduction of capital to effect the Capital Distribution, CAHL will declare the Capital Distribution to its shareholders on the basis of HK\$1 per CAHL Share, with scrip election. The Capital Distribution is conditional and therefore may or may not proceed.
- At the request of CAHL, trading in CAHL's securities was suspended at 10 a.m. on 22nd May, 2000 pending this announcement. Application has been made to The Stock Exchange of Hong Kong Limited for resumption with effect from 10 a.m. on 23rd May, 2000.

#### THE SALE AND PURCHASE AGREEMENT DATED 19TH MAY, 2000 (THE "AGREEMENT")

- Purchaser** : First Shanghai Investments Limited ("FSIL")
- Vendor** : China Assets (Holdings) Limited ("CAHL")

Both FSIL and CAHL are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Through its wholly-owned subsidiaries, FSIL is indirectly interested in 25,162,866 shares of US\$0.10 each ("CAHL Shares") in the capital of CAHL, representing approximately 33.83% of the issued share capital of CAHL. In turn, CAHL is beneficially interested in 229,848,000 shares of HK\$0.20 each ("FSIL Shares") in the capital of FSIL, representing approximately 20.42% of the issued share capital of FSIL. By virtue of their respective shareholdings in each other, FSIL and CAHL are connected person to each other as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

#### 3. The Transaction

Pursuant to the Agreement, FSIL has agreed to purchase or procure the purchase of and CAHL has agreed to sell all the effective equity interests (the "Sale Interests") held by CAHL (together with its subsidiaries, the "CAHL Group") in certain investee companies in the People's Republic of China (the "PRC") as follows:—

Investee company	Principal activities	Date Invested/ Approved	Profit/(loss) before tax (PRC audited)		Profit/(loss) after tax (PRC audited)		Sale Interest	Share of net assets, less provision by CAHL Group as at 31st December, 1999 (note 1) US\$ mil
			1998 Rmb '000	1999 Rmb '000	1998 Rmb '000	1999 Rmb '000		
(a) Dezhou Zhenhua Glass Co., Ltd. ("Dezhou Glass")	Production and sale of glass products	May 1994	(228)	499	(228)	499	30%	—
(b) Shandong Lukang Pharmaceutical Co., Ltd. ("Lukang")	Manufacture and sale of antibiotics	April 1995	69,490	54,519	58,863	46,269	17.45%	22.7
(c) Shenzhen SPEC Plastics Holdings Co., Ltd. ("SPEC Plastics")	Production and sale of PVC chips	June 1992	12,795	18,018	10,038	15,029	28.05%	5.3
(d) Suzhou Universal Chain Transmission Co., Ltd. ("SU Chain")	Production and sale of industrial chains	December 1992	410	452	299	330	33.33%	1.4
(e) Wuxi Huate Steel Strip Co., Ltd. ("Huate Steel")	Manufacture and sale of steel	December 1995	14,292	20,784	13,618	19,940	35%	2.3
(f) Wuxi Tristar Iron & Steel Co., Ltd. ("Tristar")	Manufacture and sale of steel	August 1994	(1,364)	0	(1,364)	0	25%	—
(g) Wuxi United Iron & Steel Co., Ltd. ("United Iron")	Manufacture and sale of steel	July 1993	(14,761)	(718)	(14,761)	(718)	25%	—
(h) Hong Kong Strong Profit Limited ("Strong Profit") holding 25% of Zhejiang Huayu Crafts Weaving and Dyeing Co., Ltd. ("Huayu Crafts")	Weaving and dyeing of synthetic fabrics	December 1991	US\$(655)	N/A	US\$(655)	N/A	49% together with a shareholder's loan of HK\$735,000	—
(i) Zhongshan Dongfu Road and Bridge Investment Co., Ltd. ("Dongfu Road")	Operation of toll road and bridge	March 1995	(7,677)	N/A	(7,677)	N/A	35% (note 2)	6.5 (note 3)
(j) Zhongshan Nangang Road and Bridge Co., Ltd. ("Nangang Road")	Operation of toll road and bridge	February 1996	(3,368)	(2,563)	(3,368)	(2,563)	29.23% (note 2)	2.8 (note 3)

Note 1: For those investee companies which a full provision has been made, the shares of net assets, less provision by CAHL Group are nil.

Note 2: The percentage represents CAHL's investment in relation to the total investments of the respective investee company. CAHL's interests therein comprise the share of profits and guaranteed return.

Note 3: The amount represents CAHL's costs of investments, less amortisation and provision for diminution in value.

- Dezhou Glass**  
Dezhou Glass is a sino-foreign joint venture company established in the PRC for 30 years from May 1994. The remaining 70% interest not held by the CAHL Group is owned by the independent PRC partner, Shandong Dezhou Zhenhua Glass Factory. The registered and paid up capital of Dezhou Glass is US\$10,673,300 (approximately HK\$82.7 million), of which the CAHL Group contributed US\$3,202,000 (approximately HK\$24.8 million) for its 30% share. This investment has been fully provided for diminution in value in 1998.
- Lukang**  
Lukang is a joint stock company established in the PRC and listed on the Shanghai Securities Exchange ("SSE"). The CAHL Group contributed approximately US\$9.6 million (approximately HK\$74.4 million) for its 17.45% interest, which are legal person shares and cannot be traded on the SSE. The controlling shareholder of Lukang is Shandong Lu Kang Pharmaceutical Enterprise Group Co., which is an independent third party holding approximately 39.20% of Lukang.
- SPEC Plastics**  
SPEC Plastics is a joint stock company established in the PRC. The CAHL Group contributed approximately US\$5.5 million (approximately HK\$42.6 million) for its 28.05% share. The controlling shareholder of SPEC Plastics is Shenzhen Petrochemical Industrial (Holdings) Co., Ltd., which is an independent third party holding approximately 64.13% of SPEC Plastics. The remaining 7.82% interest in SPEC Plastics is held by independent third parties.
- SU Chain**  
SU Chain is a sino-foreign joint venture company established for 25 years from September 1992. The remaining 66.67% interest is held by the independent PRC partner, Suzhou General Chain Factory. The original cost of investment of the CAHL Group was US\$2.0 million (approximately HK\$15.5 million). A provision of US\$0.6 million (approximately HK\$4.7 million) has been made against this investment in 1998.
- Huatae Steel**  
Huatae Steel is a sino-foreign joint venture company established for 30 years from December 1995. The remaining 65% interest is held by four independent third parties of which the major shareholder is Xishan Heavy Transport Company holding a 36.58% interest. The CAHL Group had contributed US\$2.1 million (approximately HK\$16.3 million) for its 35% share.
- Tristar**  
Tristar is a sino-foreign joint venture company established for 30 years from July 1994. The remaining 75% interest is held by the independent PRC partner, Wuxi Xixing Iron and Steel Company Limited. The original cost of investment of the CAHL Group was approximately US\$7.0 million (approximately HK\$54.3 million). This investment has been fully provided for diminution in value in 1998. Tristar has ceased production since mid 1997.  
A long-term lease agreement was signed between Tristar and a local steel maker for the lease of Tristar's production plants and supporting facilities in 1999. According to the agreement, Tristar would be paid an annual lease fee and provided new capital to bring Tristar back to production (expect in next year). This will create a synergy effect between Tristar and United Iron as a result of a larger combined production scale.
- United Iron**  
United Iron is a sino-foreign joint venture company established for 30 years from June 1993. The remaining 75% interest is held by the independent PRC partner, Wuxi Xixing Iron and Steel Company Limited. The original cost of investment of the CAHL Group was approximately US\$7.4 million (approximately HK\$57.4 million). This investment has been fully provided for diminution in value in 1998. United Iron had incurred substantial losses in the past years and production had been interrupted since 1998 due to working capital constraints.
- Huayu Crafts**  
Huayu Crafts is a sino-foreign joint venture company established for 15 years from December 1990. The controlling shareholder of Huayu Crafts is Zhejiang Xiaoshan Umbrella Silk Factory which holds 75%, the remaining 25% is held by Strong Profit. Strong Profit is a 49% associated company of CAHL. CAHL is effectively interested in 12.25% of Huayu Crafts. The remaining 51% interest in Strong Profit is held by independent third parties.  
The original cost of investment of the CAHL Group in Huayu Crafts was US\$735,000 (approximately HK\$5.7 million). This investment has been fully provided for diminution in value in 1998. The trading performance of Huayu Crafts in the past years had been adversely affected by the over-supply problems in the market.
- Dongfu Road**  
Dongfu Road is a sino-foreign co-operative joint venture established for 20 years from March 1995. The joint venture partners are independent third parties. Under the joint venture agreement, CAHL is guaranteed a minimum return of 13% per annum on its initial capital contribution of approximately US\$9.1 million (approximately HK\$70.5 million) for a period of seven years. CAHL's capital contribution is repayable by the joint venture in equal instalments over the life of the joint venture. However, due to the delay in payments of the initial capital contribution and the guaranteed returns since 1997, provisions in an aggregate amount of US\$3.24 million (approximately HK\$25.1 million) have been made by CAHL for the outstanding guaranteed returns and outstanding amortisation amount in 1998 and 1999. CAHL has been negotiating with the PRC partner to recover the sums due but no agreement has been reached. CAHL is considering taking legal actions. A provision for diminution in value of US\$500,000 (approximately HK\$3.9 million) has been made against this investment in 1999.
- Nangang Road**  
Nangang Road is a sino-foreign co-operative joint venture established for 20 years from February 1996. The joint venture partners are independent third parties. Under the joint venture agreement, CAHL is guaranteed a minimum return ranging from 10% to 15% per annum on its initial capital contribution of US\$6.0 million (approximately HK\$46.5 million) over the life of the joint venture. CAHL's capital contribution is repayable by the joint venture in equal instalments over the life of the joint venture. However, due to the delay in payments of the initial capital contribution and the guaranteed returns since 1997, provisions in an aggregate amount of US\$2.44 million (approximately HK\$18.9 million) have been made by CAHL for the outstanding guaranteed returns and outstanding amortisation amount in 1998 and 1999. CAHL has been negotiating with the PRC partner to recover the sums due but little achievement was reached. Having consulted with its lawyers, CAHL commenced legal action at the end of 1999. A legal letter was sent to both the PRC partner and the guarantors. A provision for diminution in value of US\$2 million (approximately HK\$15.5 million) has been made against this investment in 1999.

The total consideration (the "Consideration") for the sale of the Sale Interests is US\$15 million (approximately HK\$116.3 million), which has been arrived at between the parties based on arm's length negotiations taking into account the net book value of and past dividend income from the investments, the financial position of the investee companies. The Consideration is payable in cash upon completion.

#### 4. Conditions of the Agreement

Completion of the Agreement is conditional upon fulfilment of the following conditions:

- the passing at an extraordinary general meeting of CAHL of an ordinary resolution (in respect of which FSIL and any other party who is an associate or a connected person (as defined in the Listing Rules) interested in the transaction for the purpose of the Listing Rules shall abstain from voting) to approve the disposal of the Sale Interests;

- the passing at an extraordinary general meeting of FSIL of an ordinary resolution (in respect of which CAHL and any other party who is an associate or a connected person (as defined in the Listing Rules) interested in the transaction for the purpose of the Listing Rules shall abstain from voting) to approve the acquisition of the Sale Interests;
- the waiver by any person having such rights of all and any rights of pre-emption over the Sale Interests;
- CAHL not having received payments in excess of HK\$2 million in total from the investee companies over and above any expected dividends, returns or receipt as having been disclosed in the Agreement; and
- the receipt by FSIL to its satisfaction of a legal opinion issued by a firm of lawyers qualified to practise in the PRC and advise on securities laws matters (to be instructed by FSIL and to which CAHL shall not object), at FSIL's costs, confirming, inter alia, the due establishment and valid existence of the investee companies, that the lawful right for the investee companies to use their land properties in the PRC and the status of the dispute involving of Nangang and Dongfu referred to above.

The Agreement will be completed on the third business day following the satisfaction of the conditions or such other dates as may be agreed by the parties to the Agreement. The Agreement will become null and void if the conditions are not fulfilled or waived by 31st July, 2000.

Under the Agreement, CAHL agreed to use its best endeavours to assist FSIL in obtaining all necessary authorisations, orders, grants, consents, permissions and approvals (together "Matters of Conveyance") to the sale and purchase of the Sale Interests from appropriate authorities. In the event that the Matters of Conveyance in respect of any investee company cannot be completed within 6 months from the date of completion of the Agreement, or such other period as the parties may agree upon, CAHL shall retain the relevant Sale Interests and refund such part of the Consideration as it relates to the particular Sale Interests to FSIL. The amount to be refunded shall be US\$20,000 (approximately HK\$155,000) for each of Dezhou Glass, Tristar, United Iron and Strong Profit and a discount of 47% to the carrying value for the other investee companies. The refundable amount has been arrived at after arm's length negotiation taking into account the aggregate consideration of US\$15 million. If all Matters of Conveyance cannot be completed within the specified time period, the maximum amount repayable by CAHL to FSIL will be US\$15 million, which is equal to the Consideration. CAHL has further guaranteed to FSIL that the annual dividend declared and payable by the investee companies to FSIL for the year ending 31st December, 2000 shall not be less than 4% of the Consideration, which is equal to US\$600,000 (approximately HK\$4.7 million). For the two years ended 31st December, 1998 and 1999, CAHL received a total of US\$2.0 million (approximately HK\$15.5 million) and US\$2.2 million (approximately HK\$17.1 million) respectively from the investee companies.

#### 5. Capital Distribution by CAHL

The directors of CAHL also propose that subject to the completion of the Agreement and the approval of the relevant judicial or other bodies under the laws of Hong Kong, CAHL will declare a distribution of capital (the "Capital Distribution") to its shareholders on the basis of HK\$1 per CAHL Share, in cash, or as the CAHL shareholders may elect, by the issuance and allotment of CAHL Shares as fully paid bonus CAHL Shares on the basis described below. The basis of the Capital Distribution has been decided by the directors of CAHL taking into account the proceeds to be received by CAHL upon completion of the Agreement. On the basis of 74,383,160 CAHL Shares in issue, the Capital Distribution will involve payment of approximately HK\$74.4 million, which will be financed from the proceeds received from the Agreement. Any shareholder of CAHL can elect, at his/her option, to receive new CAHL Shares in lieu of payment of the Capital Distribution at an issue price calculated at a discount of 85% to the average of the closing prices of the CAHL Shares quoted on the Stock Exchange for the last 10 consecutive trading days prior to the record date for determining entitlement to the Capital Distribution. The directors consider that the discount is fair and reasonable and is in the interest of all CAHL shareholders as they will have the opportunity to reinvest into CAHL at a discount to the market price if they so wish. FSIL intends to elect cash for its share of Capital Distribution.

#### 6. Conditions precedent to the Capital Distribution

The Capital Distribution by CAHL is conditional on the following conditions being fulfilled:

- the Agreement being completed;
- the passing at an extraordinary general meeting of CAHL of a special resolution to approve the Capital Distribution and the reduction of capital resultant therefrom; and
- the confirmation of the Capital Distribution by way of a reduction of capital by the Court of First Instance of the High Court of the Hong Kong Special Administrative Region (the "Court") and compliance with all relevant provisions of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

Shareholders of CAHL are reminded that the necessary court approval of the Capital Distribution may or may not be granted and the time for effecting the Capital Distribution cannot be ascertained at this stage. Shareholders of CAHL will be provided with further details about the Capital Distribution and all other relevant facts and information to enable them to decide on the special resolution to be proposed to effect the Capital Distribution.

#### 7. Reasons for the Proposals

##### (i) CAHL

The principal activity of CAHL is investment holding. CAHL is listed on the Stock Exchange as an investment holding company under Chapter 21 of the Listing Rules. The CAHL Group's investment projects typically involve direct equity investments in industrial and infrastructure projects in the PRC. The performance of these investments over the years have been unfavorably affected by the change in economic pattern in the PRC. In light of the increase in public interests in technology related investments, the directors of CAHL propose a change in CAHL's investment strategy and direction to enable CAHL to concentrate more on investments in the new economy. To this end, CAHL seeks to dispose of the whole of its non-hi-tech related investment portfolio. It is estimated that there will be a loss in the amount of approximately US\$26.7 million (approximately HK\$206.9 million) arising on disposal of the Sale Interests. Taking into account the past performance of the investee companies and the fact that CAHL is not in control of any of these investee companies, the directors of CAHL consider that the terms of the Agreement are fair and reasonable and the Agreement is in the interests of the shareholders of CAHL.

Following completion of the Agreement, the CAHL Group will have realised substantially all of its investments in industrial and infrastructure projects. The CAHL Group's remaining investments will include the followings:—

Name	Share of net assets, less provision by CAHL Group as at 31st March, 2000 (unaudited) (US\$ million)	Shareholding (%)
FSIL	21.25	20.42
Genius Technology International Limited ("Genius") (note)	0.49	13.20

Note: CAHL commenced its investment in Genius in late 1999. Genius is principally engaged in the provision of financial information services in the PRC through a sino-foreign joint venture, Shenzhen Genius Information Technology Co., Ltd. ("SGIT"). The total commitment of CAHL in Genius is US\$1.15 million. The net asset value of SGIT as at 31st December, 1999 was approximately Rmb14.26 million.

The directors of CAHL have confirmed that the remaining investment will still meet the requirements under Chapter 21 of the Listing Rules, details of which shall be included in the circular of CAHL.

In the circumstances, the directors of CAHL consider it appropriate to return part of the paid up capital to its shareholders. The scrip election under the Capital Distribution will enable shareholders who are attracted to the future of CAHL to retain their investments in CAHL by electing for the scrip dividend.

The directors of CAHL propose that new investments will be made in value-added hi-tech industries with a sound business model and a solid operating base. The CAHL Group intends to commit about 70% of its funds in the technology related sector and the remaining for investments in the biotechnology and other hi-tech sectors.

The net proceeds from the sale of the Sale Interests, amounting to approximately US\$14.8 million (approximately HK\$114.7 million), will be used up to approximately HK\$74.4 million to pay for the Capital Distribution referred to above, and as to the balance for future investments purposes.

The directors of CAHL are reviewing certain potential investment projects in the hi-tech areas. CAHL will continue to target its investments in the PRC. The directors of CAHL consider that the PRC has plenty of young talent and intellectuals in the hi-tech sectors enabling the PRC market to transform from the old economy into a new economy based on future growth from new technologies. The directors of CAHL believe that this will present tremendous opportunity to CAHL. To this end, the directors of CAHL decided to retain its interest in Genius which is in line with the new business direction of the CAHL Group. At present, no definite investment has been decided on. However, the directors of CAHL are confident that the newly formulated investment strategy of CAHL will enable it to capture new investment opportunities open to the CAHL Group in the course of CAHL's transformation.

Subject to the availability of suitable investment projects and the market conditions, CAHL intends that it will implement a fund raising in due course to increase its investment funds, the exact timing has yet to be decided. FSIL, as the single largest shareholder, has indicated that it will give full support to the fund raising activity. The fund raising could be in the form of placing of new securities and/or rights issue, but no concrete plan has been decided in this regard.

Although the Capital Distribution and the potential fund raising activity look contradictory in nature, the directors of the CAHL consider that the Capital Distribution provides an opportunity for the CAHL shareholders to realise their investment in the investee companies held by CAHL while giving them a choice to retain their investment in CAHL. Depending on the nature of the fund raising exercise, the CAHL shareholders may be given the choice of further investing into the future new economy business of CAHL.

##### (ii) FSIL

The principal activity of FSIL is investment holding. The subsidiaries of FSIL are principally engaged in securities investment, provision of container transportation and freight forwarding services, marketing and sale of children products, provision of corporate finance and stockbroking services and consultancy services.

FSIL is confident in the continued prosperity and economic growth of the PRC. The directors of FSIL believe that the proposed acquisition provides an opportunity for FSIL to increase its PRC direct investment portfolio at a reasonable price. FSIL will utilise its extensive PRC network to look for strategic partners and/or exit opportunities for the joint ventures. Being the single largest shareholder of CAHL, FSIL will also benefit from its re-organisation as CAHL's business will be more focused. The directors of FSIL consider that the terms of the Agreement are fair and reasonable and the Agreement is in the interest of the shareholders of FSIL.

The acquisition cost of US\$15 million (approximately HK\$ 116.3 million) payable under the Agreement will be funded from the internal resources of FSIL.

#### 8. General

Because of the substantial shareholdings of CAHL and FSIL in each other, the Agreement constitutes a connected transaction for both CAHL and FSIL under the Listing Rules. In addition, the Agreement also constitutes a major and discloseable transaction for CAHL and FSIL respectively as defined under the Listing Rules. CAHL and FSIL will each appoint its own independent board committee to advise their respective independent shareholders regarding the Agreement. They will also each appoint an independent financial adviser to advise the respective independent board committee on the fairness and reasonableness of the Agreement.

A circular containing further details of the Agreement and the Capital Distribution, and the recommendation of CAHL's independent board committee and its financial adviser on the Agreement, together with a notice of an extraordinary general meeting of CAHL to be convened for the purpose of considering and, if thought fit, approving the Agreement and the Capital Distribution and other related matters, will be despatched to the shareholders of CAHL as soon as possible.

A circular containing further details of the Agreement and the recommendation of FSIL's independent board committee and its financial adviser on the Agreement, together with a notice of an extraordinary general meeting of FSIL to be convened for the purpose of considering and, if thought fit, approving the Agreement and other related matters, will be despatched to the shareholders of FSIL as soon as possible.

At the request of CAHL, trading in CAHL's securities was suspended at 10 a.m. on 22nd May, 2000 pending this announcement. Application has been made to The Stock Exchange of Hong Kong Limited for resumption with effect from 10 a.m. on 23rd May, 2000.

By Order of the Board  
China Assets (Holdings) Limited  
Tsui Che Yin Frank  
Director

By Order of the Board  
First Shanghai Investments Limited  
Yeung Wai Kin  
Director

Hong Kong, 22nd May, 2000

In this announcement, an exchange rate of US\$1 = HK\$7.75 is adopted.