
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in Wah Nam Group Limited, you should at once hand this circular to the purchaser or transferee to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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華南集團有限公司
WAH NAM GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

**DISCLOSEABLE TRANSACTION
INVOLVING ISSUE OF NEW SHARES**

28th December, 1999

W.F. G.

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DEFINITIONS

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

“Acquisition”	the acquisition of the entire interests in Summit Mass by the Purchaser pursuant to the Agreement
“Agreement”	the conditional agreement dated 25th November, 1999 entered into between the Purchaser and the Vendors pursuant to which the Purchaser agreed to acquire and the Vendors agreed to dispose of the entire interests in Summit Mass
“Associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Company”	Wah Nam Group Limited (華南集團有限公司), a company incorporated in Hong Kong with limited liability and its Shares are listed and dealt in on the Stock Exchange
“Completion”	the completion of the Acquisition pursuant to the Agreement
“Consideration”	the consideration of HK\$38,800,000 for the Acquisition to be satisfied (i) as to HK\$33,800,000 by cash and (ii) as to HK\$5,000,000 by the issue of the Consideration Shares pursuant to the Agreement
“Consideration Price”	HK\$0.10 per Consideration Share
“Consideration Shares”	the 50,000,000 new Shares to be allotted and issued by the Company to the Vendors at the Consideration Price pursuant to the Agreement
“Director(s)”	the director(s) of the Company
“Empire Harvest”	Empire Harvest Development Limited, a company incorporated in Hong Kong with limited liability and wholly-owned by Mr. Terence P.T. Ho, the finance director of the Company until 25th March, 1999 and a Director until 31st August, 1999
“Excel Noble”	Excel Noble Development Limited, a company incorporated in Hong Kong with limited liability and wholly-owned by Mr. Samson D. Chen, the chief executive officer of the Company until 15th March, 1999 and a Director until 1st September, 1999
“Group”	the Company together with its subsidiaries

DEFINITIONS

“Latest Practicable Date”	23rd December, 1999 being the latest practicable date before the printing of this circular for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Chan”	Mr. William P. T. Chan, the Chairman and Managing Director of the Company
“PRC”	the People’s Republic of China
“Previous Share Option Scheme”	the previous share option scheme adopted by the Company on 28th October, 1993 and expired on 27th October, 1998
“Property”	the piece of land located in Xiao Liu Bu, Tian Shui District, Ya Xi Town, Xinhui City, Jiangmen City, Guangdong Province, the PRC (中國廣東省新會市崖西鎮甜水管理區小留步側山)
“Purchaser”	Great Strategy Properties Limited, a company incorporated in the British Virgin Islands and is wholly-owned by the Company
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance, Chapter 396 of the Laws of Hong Kong
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holders of the Shares
“Share Option Scheme”	the share option scheme of the Company adopted on 23rd October, 1999
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Summit Mass”	Summit Mass Limited, a company incorporated in Hong Kong with limited liability, is owned as to 51% by Ms. Lau Kit Ming and as to 49% by Ms. Tse Tung Mui, Michelle prior to the Completion. The sole asset of Summit Mass is the Property
“Vendors”	Ms. Lau Kit Ming and Ms. Tse Tung Mui Micelle, independent third parties not connected with any of the directors, chief executive, substantial shareholder of the Company or its subsidiaries or any of their respective Associates.
“HK\$”	Hong Kong dollars
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

LETTER FROM THE BOARD



華南集團有限公司 WAH NAM GROUP LIMITED

(Incorporated in Hong Kong with limited liability)

Executive Directors:

Mr. William P. T. Chan

(Chairman and Managing Director)

Ms. K. L. Chow

Mr. Matthew K. C. Chan

Registered Office:

9th Floor

CITIC Tower

1 Tim Mei Avenue

Central

Hong Kong

Independent non-executive Directors:

Dr. Paul M. H. Yong

Mr. Andy S. Y. Choy

Mr. H. T. Chim

28th December, 1999

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION INVOLVING ISSUE OF NEW SHARES

INTRODUCTION

On 26th November, 1999, the Directors announced that the Group has entered into the Agreement whereby the Purchaser agreed to acquire and the Vendors agreed to sell the entire interests in Summit Mass at the Consideration to be satisfied as described below.

The Acquisition constitutes a discloseable transaction for the Company under the Listing Rules. The Purpose of this circular is to give you further information regarding the Agreement.

LETTER FROM THE BOARD

THE AGREEMENT

The Agreement was signed on 25th November, 1999 between:

Parties

Purchaser: Great Strategy Properties Limited, a wholly-owned subsidiary of the Company

Vendors: Summit Mass is owned as to 51 per cent. by Ms. Lau Kit Ming and as to 49 per cent. by Ms. Tse Tung Mui, Michelle. The Vendors are independent third parties not connected with any of the directors, chief executive, substantial shareholder of the Company or its subsidiaries or any of their respective Associates.

Asset to be acquired

The Purchaser has agreed to acquire the entire issued share capital of Summit Mass which in turn owns the Property.

Consideration

The Consideration which amounts to HK\$38,800,000 which has been determined after arm's length negotiations between the parties involved with reference to the unaudited net asset value of Summit Mass as at 31st October, 1999. The open market value of the Property as at 31st October, 1999 was HK\$45,000,000 as appraised by Brooke International (China) Limited, an independent firm of valuers.

The Consideration representing HK\$38,800,000 shall be paid by the Purchaser to the Vendors in the following manners:

- (i) A refundable deposit of HK\$7,760,000 has been paid by the Purchaser to the Vendors on 25th November, 1999, being the date of the Agreement;
- (ii) A refundable amount of HK\$26,040,000 shall be paid by the Purchaser to the Vendors on the date of the Completion; and
- (iii) The balance of HK\$5,000,000 representing an allotment and issue of a total of 50,000,000 new Shares at HK\$0.10 per Share by the Company to the Vendors.

At the date of the Completion, the Consideration is subject to the following adjustments:

1. The Consideration shall be increased by an amount equivalent to the amount by which the adjusted net asset value of Summit Mass as at the date of the Completion certified by the auditors of the Company is greater than the adjusted net asset value of Summit Mass representing HK\$38,800,000 as warranted by the Vendors. In any event, the Consideration shall not exceed HK\$40,000,000.

LETTER FROM THE BOARD

2. The Consideration shall be reduced by an amount equivalent to the amount by which the adjusted net asset value of Summit Mass as at the date of the Completion as certified by the auditors of the Company is less than the adjusted net asset value of Summit Mass representing HK\$38,800,000 as warranted by the Vendors.

In addition, the Purchaser shall provide such amount not exceeding the sum of HK\$6,200,000 in cash as may be required by Summit Mass to forthwith repay the full amount of the loans advanced by the Vendors respectively to Summit Mass and outstanding at the date of the Completion.

The Consideration Shares represent approximately 2.72% and 2.65% of the existing issued share capital and the enlarged issued share capital of the Company following the issue of the Consideration Shares respectively.

The Consideration Price represents a premium of 100% to the closing price of HK\$0.05 per Share as quoted on the Stock Exchange on 25th November, 1999, being the date of the Agreement. The Consideration Price also represents a premium of approximately 90% to the 10-day average closing price of HK\$0.0527 per Share up to and including 25th November, 1999. The Consideration Price represents a premium of approximately 122% to the closing price of HK\$0.045 per Share as quoted on the Stock Exchange on the Latest Practicable Date and a premium of approximately 93% over the average closing price of approximately HK\$0.0519 per Share for the last ten trading days up to and including the Latest Practicable Date. The Consideration Price, which is equal to the par value of the Share, was determined after arm's length negotiation between the parties involved. The Consideration Shares, upon issue, will rank pari passu in all respects with the existing issued Shares.

Conditions

Completion of the Agreement is conditional upon, among others, the following conditions being fulfilled:

- (a) the Purchaser having been satisfied that the Company has a good, valid, marketable and freely assignable property rights to the Property and subject to the title documents but otherwise free from any encumbrance; and
- (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares.

The above conditions shall be fulfilled within six months from the date of the Agreement or such longer period as may be further mutually agreed by the parties involved. Completion shall take place within seven business days after fulfilment or waiver of the above conditions. The date of the Completion is expected to be on or before 5th June, 2000. After the Completion, Summit Mass will become an indirect wholly-owned subsidiary of the Company.

Application has been made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares to be issued pursuant to the Agreement.

LETTER FROM THE BOARD

INFORMATION ON SUMMIT MASS

Summit Mass is a private company incorporated in Hong Kong with limited liability and is principally engaged in the business of property holding. The sole asset of Summit Mass is the Property located in Xiao Liu Bu, Tian Shui District, Ya Xi Town, Xinhui City, Jiangmen City, Guangdong Province, the PRC (廣東省新會市崖西鎮甜水管理區小留步側山). The Property comprises a vacant site with a total area of 66,600 square metres to be developed into a combination of office, shop and residential units. The land use rights of the Property has a term of 70 years commencing from 7th May, 1994. Based on the unaudited management accounts of Summit Mass, the net asset value of Summit Mass was HK\$38,800,000 as at 31st October, 1999. Summit Mass has yet to commence its operation, hence there has been no operating results since its incorporation on 9th April, 1998. Although Summit Mass Limited has not produced any audited accounts since its incorporation on 9th April, 1998, the Directors believe that it would not arise material liabilities. The Vendors have warranted that any liabilities which have not been recorded in the completion accounts will be taken up by them. As a result, the Directors believe that it would not have material adverse effect on the Acquisition. At present, there is no audited accounts for Summit Mass. Unaudited financial statements of Summit Mass as at the date of the Completion, which will be prepared in accordance with accounting principles generally accepted in Hong Kong, will be available within 30 days after the date of the Completion. The audited financial statements of Summit Mass will be available within 30 days after completion of the unaudited financial statements.

The development of the Property will be divided into three phases. Currently, the Company has not formulated any definite plan regarding the finance of the development costs. The Company will consider raising funds by way of bank borrowings, private placement of shares or warrants, issue of convertible bonds or introducing joint venture partners. The first phase of the development will commence at once when the Company has identified a suitable source of finance to the development costs and after the Completion. The second phase of the development will only begin when the first phase of the project has been completed and the same for the third phase of the development. Based on the feasibility study prepared by an independent chartered surveyor and reviewed by the Company on this development project, development costs of the Property, which are estimated by the independent chartered surveyor, are estimated to be approximately RMB19,980,000 (approximately HK\$17,500,000), RMB34,632,000 (approximately HK\$30,300,000) and RMB19,320,000 (approximately HK\$17,000,000) in phase one, two and three respectively. The development costs will be varied depending on the final development plan. At present, the Company has not entered into any legally binding agreement in relation to the development of the Property.

REASONS FOR THE ACQUISITION

The Group is principally engaged in the marketing, trading and manufacturing of consumer electronic and electrical products, plastic and electrical goods; property investment; construction and administration of infrastructure projects and other investments.

The Directors consider that the Agreement will provide a business opportunity to the Group for expanding its properties business in the PRC. The Directors consider that the terms of the Agreement, which were negotiated on an arm's length basis, are fair and reasonable and the Agreement is in the interest of the Group.

LETTER FROM THE BOARD

The Acquisition is to be financed by the internal resources of the Group. Part of the Consideration representing HK\$5,000,000 will be satisfied by the issue of new Shares, hence there will be lesser cash outflow from the Company in respect of the Acquisition. The terms and conditions of the Agreement were agreed after arm's length negotiations. The Directors consider that the Agreement is in the commercial interest of the Company.

As disclosed in the circular issued by the Company on 7th October, 1999 (the "Circular"), the Directors considered that the Group had adequate working capital to meeting its present requirement. Since the date of the Circular and up to the Latest Practicable Date, the Directors are not aware of any material adverse changes which would affect the sufficiency of the Group's working capital. In addition, the Directors are aware of (i) the orders against the Company for interim payments of HK\$6 million and interest thereon (the "HK\$6 Million Order") and HK\$24 million and interest thereon respectively in respect of two HK\$15 million convertible notes issued by the Company in respect of which beneficial ownership is in dispute; and (ii) the undertaking disclosed in paragraph (j) of the section headed "Litigation" set out in the appendix II of this circular. The Directors are of the opinion that the aforesaid undertaking and the HK\$6 Million Order will not have any material adverse impact on the financial position of the Company and are considering different alternative arrangements to maintain the normal operation of the business of the Company notwithstanding the HK\$6 Million Order and the aforesaid undertaking. As a result, the Directors expect that the Acquisition will have no adverse impact on the cash flow and the gearing ratio of the Group. The Directors believe that the Acquisition will strengthen the Group's properties business in the PRC and thereby the future earnings and asset backing to the Group.


GENERAL

The Acquisition constitutes a discloseable transaction for the Company under the Listing Rules. Your attention is also drawn to the information set out in the appendices of this circular.

By Order of the Board
Wah Nam Group Limited
William P. T. Chan
Chairman and Managing Director

Set out below is the text of a letter, together with a summary of values and a valuation certificate prepared by Brooke International (China) Limited, an independent firm of valuers, in connection with its valuation as at 31st October, 1999 of the Property, prepared for the purpose of incorporation into this circular.

Brooke International

Real Estate Advisors Worldwide  ONCOR

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28th December, 1999

The Directors
Wah Nam Group Limited
9/F., CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

Dear Sirs,

Re: A parcel of land located in Xiao Liu Bu, Tian Shui District, Ya Xi Town, Xinhui City, Jiangmen City, Guangdong Province, The People's Republic of China

We refer to the instructions for us from Wah Nam Group Limited (hereinafter referred to as the "Company") and its subsidiaries (hereinafter together referred to as the "Group") to value the captioned property interest located in the People's Republic of China (hereinafter referred to as the "PRC"). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market value of such property interest as at 31st October, 1999.

Our valuation is our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation assuming:

- (a) a willing seller,
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a purchaser with a special interest; and

- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuation has been based on our experience of valuing properties in the PRC. Our valuation services have been executed in accordance with our Quality Management System, which conforms with the ISO 9001: 1994 Standard, and which has received accreditation from our certification body, Lloyd’s Register Quality Assurance.

In valuing the property interest, we have considered it on an open market basis by the Direct Comparison Approach assuming sale with the benefit of immediate vacant possession and by reference to comparable sales evidence as available on the market. We have also considered the development potential of the property interest by taking into account the completed value of the proposed development that could be achieved and the construction costs and professional fees to be spent.

Our valuation has been made on the assumption that the Group sells the property interest on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the value of the property interest.

In addition, no account has been taken of any option or right of pre-emption concerning or effecting the sale of the property and no forced sale situation in any manner is assumed in our valuation.

We have been provided with extracts from title documents relating to the property. We have not, however, searched the original documents to verify ownership or to determine the existence of any amendments which may not appear on the copies handed to us. We have relied on the advice given by the Group and its legal adviser on PRC laws (the “PRC Legal Adviser”) regarding the title of the property interest.

All documents and leases have been used for reference only. Dimensions, measurements and areas included in this valuation document are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have inspected the property. No detailed survey has been made. We are therefore unable to report that the property is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have assumed that all consents, approvals and licences from relevant government authorities for the property would be granted without any onerous conditions or undue delay which might affect its value.

Having reviewed all relevant documentation, we have accepted advice given to us by the Group on such matters as planning approval, statutory notice, easement, tenure, site area and in the identification of the property interest.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also been advised by the Group that no material facts have been omitted from the information provided, and we have no reason to suspect that any material information has been withheld.

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

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars. The exchange rate adopted is the average rate as at 31st October, 1999 being HK\$1=RMB1.07 and there has been no significant fluctuation in exchange rate between that date and the date of this letter.

Our valuation has been prepared in accordance with generally accepted valuation procedures and complies with Practice Note 12 of The Stock Exchange of Hong Kong Limited.

Our valuation certificate is attached.

Yours faithfully,
for and on behalf of
Brooke International (China) Limited
Tony C. H. Cheng
BSc., MUrbanDesign, ARICS, AHKIS, MCI Arb, AFA, MIIM
Senior Manager, Corporate Valuations

Note: Mr. Tony C. H. Cheng is a chartered surveyor with 8 years' experience in valuing properties in Hong Kong and in the PRC.

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st October, 1999
A parcel of land located in Xiao Liu Bu, Tian Shui District, Ya Xi Town, Xinhui City, Jiangmen City, Guangdong Province, The People's Republic of China.	<p>The property comprises an irregular shaped site with a site area of approximately 66,600 sq.m. (716,882 sq.ft.).</p> <p>The property is permitted for commercial and residential uses.</p> <p>The land use rights of the property have been granted for a term of 70 years commencing from 7th May, 1994 to 7th May, 2064.</p>	The property is currently a vacant site.	HK\$45,000,000

Notes:

1. Pursuant to the Certificate for State-owned Land Use Rights No. (1999) 210075 dated 13th September, 1999 issued by Xinhui City Land Administrative Bureau, the land use rights of the property have been granted to Summit Mass Limited with a site area of 66,600 sq.m. for commercial and residential uses for a term of 70 years expiring on 7th May, 2064.
2. The opinion of Goldsun Law Firm (國信聯合律師事務所), the PRC Legal Adviser, on PRC laws states that:
 - (i) According to the Certificate for State-owned Land Use Rights, Summit Mass Limited has duly obtained the land use rights of the property under PRC laws.
 - (ii) Summit Mass Limited is in possession of a proper legal title to the property, free from encumbrance and is entitled to transfer the residual term of its land use rights at no extra land premium or other onerous payment.
 - (iii) There are no encumbrances against the property such as mortgage, debt or financial responsibility.
 - (iv) Summit Mass Limited has rights to develop residential and commercial flats on the land and also to transfer, lease and mortgage the property.
 - (v) Summit Mass Limited has paid all the land premiums.
3. We have prepared our valuation on the following assumptions:
 - (i) The Group is in possession of a proper legal title to the property and is entitled to transfer the property with the residual term of its land use rights at no extra land premium or other onerous payment payable to the government.
 - (ii) All premium and other costs for ancillary utility services have been settled in full.
 - (iii) The property may be disposed of freely to both local and overseas purchasers.
4. The status of the title and grant of major approvals in accordance with the information provided to us by the Group and the aforesaid legal opinion are as follows:

Certificate for State-owned Land Use Rights	Yes
Red-line Drawing	Yes

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

Authorized and issued*Authorized*

<u>HK\$500,000,000</u>	divided into	<u>5,000,000,000 Shares</u>	Shares as at the Latest Practicable Date
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Issued and to be issued as fully paid:

HK\$183,821,863	divided into	1,838,218,630 Shares	Shares as at the Latest Practicable Date
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<u>HK\$ 5,000,000</u>	divided into	<u>50,000,000 Shares</u>	Consideration Shares to be issued pursuant to the Agreement
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<u>HK\$188,821,863</u>	divided into	<u>1,888,218,630 Shares</u>	
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Note: The Consideration Shares to be allotted and issued, credited as fully paid, under the Agreement will rank pari passu in all respects with the Shares in issue as at the Completion.

All Shares in issue and the Consideration Shares rank pari passu in all respects, including voting rights and entitlements to dividends and distribution.

Mr. Chan has personal interests in 22,933,396 share options, granted under the Previous Share Option Scheme, to subscribe for Shares at an exercise price of HK\$0.134 per share, exercisable from 30th October, 1997 to 29th October, 2002 (both dates inclusive).

Pursuant to the terms of the Share Option Scheme, the Directors were authorised to grant options to directors and/or employees of the Company or its subsidiaries to subscribe for Shares, subject to a maximum of 10% of the issued share capital of the Company from time to time (excluding Shares issued pursuant to the exercise of options granted under the Share Option Scheme). As at the Latest Practicable Date, the Company had no outstanding share options granted under the Share Option Scheme entitling holders to subscribe for Shares.

3. DISCLOSURE OF INTERESTS

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

(i) Shares

Name	Number of Shares	
	Personal Interests	%
Mr. Chan	293,987,750	15.99
Dr. Paul M. H. Yong	15,033,266	0.82

(ii) Employee Share Option Scheme

Mr. Chan has personal interests in 22,933,396 share options, granted under the Previous Share Option Scheme, to subscribe for shares in the Company at an exercise price of HK\$0.134 per share, exercisable from 30th October, 1997 to 29th October, 2002 (both days inclusive).

(iii) Interest in a subsidiary

Wah Nam Holdings Co. Limited ("WNH"), a company in which Mr. Chan has 60% beneficial interest, was interested in 20% of the ordinary share capital of On Yuen Development Limited ("On Yuen"), of which the Company had an 80 per cent. interest and was interested in 27% of the ordinary share capital of Crownprix Ltd., of which On Yuen had a 60% interest.

Save as disclosed herein and other than certain nominee shares in subsidiaries of the Company held by the Directors in trust for the Company, none of the Directors or chief executives of the Company or their respective associates had any other interests in the equity or debt securities or any option to subscribe for Shares as at the Latest Practicable Date which are required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which any such Director is taken or deemed to have taken under Section 31 of Part I of the Schedule to the SDI Ordinance) or which are required pursuant to Section 29 of the SDI Ordinance to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Codes for Securities Transactions by Directors of Listed Companies.

- (b) On 21st June, 1997, the Company entered into two separate conditional agreements with each of Excel Noble and Empire Harvest, whereby Excel Noble agreed to subscribe at par in cash for HK\$15 million convertible redeemable notes ("Excel Notes") and Empire Harvest agreed to subscribe at par in cash for another HK\$15 million convertible redeemable notes ("Empire Notes"). Conversion of the Excel Notes and the Empire Notes in full into Shares at an initial conversion price of HK\$0.1368 per share, subject to adjustment, will result in the issue of 109,649,123 Shares, representing approximately 6% of the existing issued share capital of the Company and approximately 5.6% of the enlarged issued share capital of the Company, in respect of each of the aforesaid notes. Mr. Chan alleges that he provided 60% of the subscription monies for the Excel Notes and all the subscription monies for the Empire Notes. Mr. Chan is, therefore, claiming in Court of First Instance Action No. 8974 of 1999 to be the beneficial owner of 60% of the Excel Notes and all of the Empire Notes.
- (c) On 8th June, 1998, the Company entered into three separate conditional agreements with each of Mr. Chan, Excel Noble and Empire Harvest pursuant to which each of Mr. Chan, Excel Noble and Empire Harvest agreed to subscribe at par in cash for a HK\$28,700,000 convertible redeemable note (the "Note"). Conversion of the Notes in full into Shares at the initial conversion price of HK\$0.10 per Share, subject to adjustment, will result in the issue of 287,000,000 Shares for each Note. Three Notes were subsequently purportedly issued to Mr. Chan, Excel Noble and Empire Harvest on 15th September, 1998. Based on the legal advice on the validity of the Notes, the Company has informed Mr. Chan, Empire Harvest, Excel Noble and the subsequent transferees of the three Notes that the Notes are void or voidable at the option of the Company. Insofar as the Notes are voidable, the Company notified the holders of the Notes on 8th July, 1999 that it has avoided each of the Notes.
- (d) Brooke International (China) Limited had no shareholding, direct or indirect, in any member of the Group, or right (whether legally enforceable or not) to subscribe for or to nominate any person to subscribe for securities in any member of the Group.

4. SUBSTANTIAL SHAREHOLDERS

- (a) As at the Latest Practicable Date, so far as is known to the Directors and chief executives of the Company, the Shareholders who were, directly or indirectly, interested in 10% or more of the issued share capital of the Company and members of the Group were as follows:

Name	Number of Shares	%
Mr. Chan	293,987,750	15.99

Save as disclosed herein, the Directors were not aware of any person or corporation, directly or indirectly, interested in 10% or more of the nominal value of any class of the share capital carrying rights to vote in all circumstances at the general meetings of any members of the Group as at the Latest Practicable Date.

- (b) Ms. Li Chun Wai was interested in 10% of the ordinary share capital of Crownprix Ltd., of which On Yuen had a 60% interest.

Save as disclosed herein and other than the Directors whose interests are disclosed above, the Directors are not aware of any person or corporation, who as at the Latest Practicable Date, directly or indirectly, held or was interested in 10% or more of the nominal value of any class of the share capital carrying the rights to vote in all circumstances at general meetings of any member of the Group.

5. DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Group other than any which expires or is determinable by the Company within one year without payment of compensation (other than statutory compensation).

6. QUALIFICATION OF EXPERT

The following is the qualification of the expert who has given his opinion or advice which is contained in this circular:

Name	Qualifications
Brooke International (China) Limited	Professional surveyors and valuers

7. CONSENT

Brooke International (China) Limited has given and has not withdrawn his written consent to the issue of this circular with the inclusion of and references to his name and report in the form and context in which it appears. The report, as the case may be, was issued for incorporation into this circular.

8. LITIGATION

Save as disclosed below, no member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against any member of the Group:

- (a) The defendant is a subsidiary of the Company, HHED (which is a joint venture established in the PRC and in which the Group holds a 60% equity interest) is the subject of a legal action in 1998 for the recovery of RMB10 million (approximately of HK\$9.25 million) being allegedly funds advanced to HHED plus accrued interest thereon. The plaintiff is Hainan Yun Chi Enterprises Limited. The Directors have been advised by the Group's PRC lawyer that the Group's joint venture partner has undertaken to bear any loss or cost incurred by the Group in connection with this action. Accordingly, no provision for this liability has been taken up by the Group in respect of this matter.
- (b) On 8th February, 1999, Wah Nam Investment (Construction Material) Limited ("WNI(CM)"), a wholly-owned subsidiary of the Company, entered into an agreement with the joint venture partner (the "JV Partner") who held the remaining 40% interests in Nanhai Xie He Tile Co., Ltd. ("NXHT") to sell NXHT by public auction in the PRC (the "Auction Agreement"). The auction was completed on 9th February, 1999 and pursuant to the Auction Agreement, WNI(CM) was entitled to a distribution of RMB 14 million. RMB 8 million was received by WNI(CM) after the auction. The JV Partner refused to pay the remaining RMB 6 million.

WNI(CM) has initiated the legal actions in the PRC to recover the whole amount. As at the Latest Practicable Date, the legal actions are still continued in the PRC.

- (c) A writ was filed by the Company against Investment Austasia Limited (“IAL”), a public company incorporated in Australia (as the first defendant), Khoo Ee Lam (a director of HCK China Investments Limited (“HCK”) and IAL as the second defendant) and Aachen (Asia Pacific) Consultants Limited (as the third defendant) (“Aachen”) on 4th February, 1999 in the Supreme Court of New South Wales in Australia in relation to a share sale agreement (as disclosed by the Company in the circular dated 26th June, 1998 (the “Circular”)) made between IAL and the Company in respect of the Company’s acquisition of the entire issued share capital of Wah Nam Infrastructure Investment Limited and IAL HK Limited (the “IAL Agreement”). The Company claims against the three parties for the misleading conduct of Khoo Ee Lam in the transaction, inter alia, for the following:

(i) *As against IAL*

a declaration that the Company has performed the IAL Agreement in accordance with its terms;

(ii) *In the alternative as against Mr. Khoo Ee Lam*

(a) a declaration that Mr. Khoo Ee Lam has engaged in conduct which was misleading and deceptive;

(b) damages;

(iii) *Further and in the alternative as against Aachen*

damages for breach of the Costs Reimbursement Agreement of which Aachen agreed to pay the Company all the actual costs associated with the IAL Agreement and the HCK Agreement (as defined in paragraph 8(e)) to a maximum of A\$1,202,688 (approximately HK\$6,409,225) to be established after completion of those transactions.

- (d) Further, in March 1999, an application was made by the Company against HCK (as the first respondent) and B & Mck Nominees Limited (as the second respondent) in the Federal Court of Australia New South Wales District Registry General Division in relation to the IAL Agreement. The Company claim against the two parties, inter alia, the following:

(i) A declaration that HCK has engaged in conduct that was misleading and deceptive or likely to mislead and deceive;

(ii) Orders pursuant to S87 of the Trade Practices Act 1974 (Cth):

– relieving the Company from any liability to pay to HCK the amount of principal or interest of A\$1,080,453.00 under the promissory notes issued by the Company to HCK on 15th September, 1998;

– varying the terms of the Promissory Notes to the extent that they require any payment of interest, and any payment of principal in excess of A\$2,919,547.00;

– restraining HCK from issuing any notice of default under the Share Deposit Deed dated 15th September, 1998 between IAL, HCK and the second respondent (“the

Share Deposit Deed”), in respect of any failure to pay interest, or any failure to pay principal in excess of A\$2,919,547.00;

- (iii) Damages;
- (iv) Interlocutory relief restraining HCK from issuing any notice of default under the Share Deposit Deed;
- (v) Interlocutory relief restraining the second respondent from taking any action in respect of any notice of default issued by HCK under the Share Deposit Deed.

The two cases referred to in paragraphs 8(c) and (d) have been consolidated on 5th November, 1999. The Australian court further gave directions, inter alia, that the defendants in the proceedings to file their defence and cross-claims (if any) on or before 31st December, 1999.

- (e) A writ was filed against the Company by HCK on 31st March, 1999 in relation to a share sale agreement (as disclosed by the Company in the Circular) made between the Company and HCK on 16th April, 1998 in respect of the Company’s disposal of its 50% interest in IAL (the “HCK Agreement”). HCK claimed against the Company A\$256,438 (approximately HK\$1,261,675), being the shortfall in shareholders’ fund in IAL warranted by the Company under the HCK Agreement. Details of this case were disclosed in the announcement made by the Company on 8th April, 1999.

No further action has been taken by HCK under this proceeding.

- (f) A writ was filed against the Company by IAL on 31st March, 1999 in relation to the IAL Agreement. IAL claims against the Company:
 - (i) A\$1,080,453 (approximately HK\$5,315,829), being part of the purchase price allegedly not paid by the Company upon completion of the IAL Agreement;
 - (ii) A\$133,403.79 (approximately HK\$656,347), being the amount agreed by the Company to advance to IAL HK to satisfy the amount due from IAL HK to IAL upon completion of the IAL Agreement;
 - (iii) A\$91,041.69 (approximately HK\$447,925), being the stamp duty and other expenses agreed to be paid by the Company for the transfer of shares in IAL HK and WNII to the Company upon completion of the IAL Agreement.

Details of this case were disclosed in the announcement made by the Company on 8th April, 1999. All the amounts in question have been provided in the year 1998 financial statement. No further action has been taken by IAL under this proceeding.

- (g) A writ was filed against the Company by Stamford Star Finance Limited (“Stamford Star”) stated on 16th April, 1999 in relation to a convertible note with a value of HK\$28,700,000 issued by the Company under a subscription agreement dated 8th June, 1998 to Excel Noble initially and was transferred to Stamford Star on 6th February, 1999 (“Note A”). Stamford Star and Excel Noble are beneficially owned by Mr. Samson D. Chen, formerly the chief

executive officer and director of the Company. Stamford Star claimed against the Company HK\$1,751,100, being the interest payable under Note A as of 15th March, 1999.

A writ was filed against the Company by Unbeatable Assets Limited ("Unbeatable Assets") on 16th April, 1999 in relation to a convertible note with a value of HK\$28,700,000 issued by the Company under a subscription agreement dated 8th June, 1998 to Empire Harvest initially and was transferred to Unbeatable Assets on 6th February, 1999 ("Note B"). Unbeatable Assets and Empire Harvest are beneficially owned by Mr. Terence P. T. Ho, formerly the finance director and director of the Company. Unbeatable Assets claimed against the Company HK\$1,751,000, being the interest payable under Note B as of 15th March, 1999.

The Company conducted investigations and considering its legal position in respect of the performance of the three Subscription Agreements entered into by Mr. Chan, Empire Harvest and Excel Noble on 8th June, 1998. The Company has sought and obtained legal advice on the validity of the three convertible redeemable notes of HK\$28,700,000 each (including Note A and Note B) (the "Avoided Notes") purportedly issued under those Subscription Agreements to Mr. Chan, Empire Harvest and Excel Noble on 15th September, 1998. Based on this advice, the Company has informed Mr. Chan, Empire Harvest, Excel Noble, Stamford Star and Unbeatable Assets that the Avoided Notes are void or are voidable at the option of the Company. Insofar as the Avoided Notes are voidable, the Company notified the holders of them on 8th July, 1999 that it has avoided each of the Avoided Notes.

Details of this case were disclosed in the announcement made by the Company on 19th April, 1999.

- (h) The Company has also received a writ of summon (Court of First Instance Action No. 8974 of 1999) issued by WNH, Mr. Chan and Wah Hing Securities Limited ("WH Securities") (together the "Plaintiffs") against, inter alia, Excel Noble, Stamford Star, Mr. Samson D. Chen, Mr. Terence P. T. Ho, Unbeatable Assets, Solar Honest Limited ("SHL") and the Company (collectively the "Defendants") on 1st June, 1999. Mr. Samson D. Chen, Mr. Terrance T. Ho have beneficial interests in SHL. The Plaintiffs' claim over the beneficial ownership in Note A, Note B and the two HK\$15,000,000 convertible redeemable notes issued by the Company on 31st July, 1997 (collectively the "Problem Notes") through certain private arrangements not involving the Company. At the hearing on 1st June, 1999, an interlocutory injunction was granted by the Court restraining the Company from paying any interest on the Problem Notes to the existing noteholders until the determination of the proposed summons to be filed by the Plaintiffs in respect of the claim of the beneficial interests over the Problem Notes against the Defendants or a further court order, except for the 40% interest due on the HK\$15,000,000 convertible redeemable notes held by Excel Noble.

Details of this case were disclosed in the announcement made by the Company on 3rd June, 1999.

The court order also provides that in the event that Stamford Star and Unbeatable are successful against the Company in their application for summary judgement for such interest in the legal proceedings prescribed in paragraph 8(g), an order may be made for payment of such amount of interest into Court.

The interlocutory injunction granted by the court mentioned above is still in place.

- (i) On 29th June, 1999, the Company commenced Court of First Instance Action No.10566 of 1999 (the "Action") against Mr. Samson D. Chen and Mr. Terence P. T. Ho for recovery from them of, inter alia, damages suffered by the Company as a result of the alleged breach of their fiduciary duties owned by them respectively to the Company in relation to (i) the performance of the Subscription Agreements mentioned in paragraph 8(g) of this Appendix and (ii) a purported Settlement Deed dated 9th July, 1998 entered into by the Company, WNH and WNH's associates as transferors on one hand and SHL, as transferee on the other hand. Under the Settlement Deed, the transferors purported to agree with SHL to transfer all the issued shares in IAL to SHL in full and final settlement of the transferors' indebtedness, as at 9th July, 1998, to SHL. The amount of indebtedness is not stated in the Settlement Deed. Mr. Samson D. Chen and Mr. Terence P. T. Ho have beneficial interests in SHL. On 8th July, 1999, the Company notified SHL that the Settlement Deed is either void or voidable and, to the extent that it is voidable, the Company has avoided it.

This action was withdrawn in November 1999 and substituted by Court of First Instance Action No. 17842 of 1999 by the Company against Mr. Samson D. Chen and Mr. Terence P.T. Ho and their related companies for similar cause of action as in Court of First Instance Action No. 10566 of 1999.

Details of this case were disclosed in the announcement made by the Company on 31st July, 1999.

- (j) On 2nd August, 1999, Excel Nobel, Stamford Star and Unbeatable Assets (together the "Plaintiffs") commenced Court of First Instance Action No. A12439 of 1999 against the Company for, inter alia, the whole of the principal amounts and accrued interest due and payable under the problem notes mentioned in paragraph 8(h) of this appendix.

This case has been consolidated with the actions in paragraph 8(g) of this Appendix. On 20th October, 1999, the Company received an application by the Plaintiffs of this action to seek order from the court for (a) an interim payment of HK\$30 million or (b) an injunction restraining the Company from removing its asset from Hong Kong and from disposing its assets, details of which were disclosed in the announcements made by the Company on 21st and 22nd October, 1999. The Company will oppose the application.

On the conclusion of hearing on 17th December, 1999 of an application by Excel Nobel Development Limited, Stamford Star Finance Limited and Unbeatable Assets Limited (which are companies related to Mr. Samson David Chen and Mr. Ho Pui Tin Terence who are ex-directors of the Company) to the court, the court granted, inter alia, (a) orders against the Company ("Orders") for interim payments of HK\$6 million (and interest thereon) and HK\$24 million (and interest thereon) respectively in respect of two HK\$15 million convertible notes issued by the Company in respect of which beneficial ownership is in dispute and (b) an injunction restraining the Company ("Injunction") from removing its assets from Hong Kong and from disposing its assets.

The court allowed the stay of execution of the Injunction, upon the Company undertaking not to dispose of, charge or further encumber; (i) the Company's 100% shareholding in Wah Nam Infrastructure Investment Ltd. ("WNII"), (ii) WNII's 60% shareholding in Hangzhou Huanan Engineering Development Co. Ltd, ("HHED") and (iii) the entitlement of the Company or WNII to receive the earnings or distribution of profits of WNII and HHED, until after the hearing of the Company's appeal ("Undertaking").

Further announcement will be made on any material development of the Company's application and appeal.

The Company is seeking further legal advice on the order in respect of interim payment of HK\$6 million and interest thereon and appeal against the order in respect of interim payment of HK\$24 million and interest thereon ("HK\$24 Million Order") and the Injunction and is preparing an application for stay of execution of the HK\$24 Million Order pending appeal against the same and further an appeal against the HK\$24 Million Order and the Injunction. It is expected that the appeal will be heard within 3 months.

- (k) On 30th September, 1999, HCK filed a Writ under Court of First Instance Action No. 15615 of 1999 against the Company for A\$160,000 (approximately HK\$790,000) being interest payable under 4 promissory notes all dated 15th September, 1998 and of A\$1,000,000 (approximately HK\$4,900,000) each all made by the Company to HCK. Also on 30th September, 1999, IAL issued a Writ under Court of First Instance Action No. 15616 of 1999 against the Company A\$134,000 (approximately HK\$660,000) being interest payable under 4 promissory notes all dated 15th September, 1998 and of A\$837,500 (approximately HK\$4,000,000) each all made by the Company to IAL.

In early December 1999, the Company has made application to the court to stay both proceedings pending outcome of the Australian case in paragraph 8(c) or challenge the jurisdiction of the court for forum or convenience. The application has yet to be heard.

- (l) On 30th August, 1999, Mr. Samson D. Chen and Mr. Terence P.T. Ho have lodged a claim in the Labour Tribunal under Claim No. LBTC 7659 of 1999 against the Company of the purported wages in arrears, payments in lieu of notice of termination, end of year bonuses, severance payments, directors' fees and emoluments, and long service payments in the total sums of approximately HK\$1.6 million. This case has been transferred to the High Court in November 1999 for further proceedings.

9. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Donald K. M. Chow who is a member of both the Australian Society of Certified Practising Accountants and the Hong Kong Society of Accountants.
- (b) The registered office of the Company is situated at 9th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong. The share registrar and transfer office of the Company is Secretaries Limited, 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

10. DOCUMENT AVAILABLE FOR INSPECTION

Copy of the valuation report prepared by Brooke International (China) Limited, the text of which is set out in appendix I of this circular is available for inspection during normal business hours at the registered office of the Company up to and including 11th January, 2000.

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