



CONNECTED TRANSACTIONS
Disposal of Interests in Sinowin Universal Limited
and change of Use of Proceeds of Initial Public Offer

On 4 February 2004, the Agreement was entered into between Yardway and Sinoway for the Disposal of two ordinary shares (being 20% issued share capital of Sinowin and the entire interest of Yardway in Sinowin before the date of the Agreement) and the Shareholder’s Loan in the sum of HK\$4,072,599 extended by Yardway to Sinowin at a total consideration of HK\$4,800,000. Sinowin was a joint venture established by Yardway and Sinoway as an investment vehicle for their investment in the Principal Joint Venture and was owned as to 80% by Sinoway and 20% by Yardway. Immediately after the completion of the Disposal on 5 February 2004, the entire issued share capital of Sinowin is solely owned by Sinoway and all rights and obligations of Yardway in relation to Sinowin are terminated. Further, a supplemental agreement was entered into on 5 February 2004 between Trade Port, NWD, Sinowin, CNAC and the Company, inter alia, for the purpose of discharging the Company from all its rights and obligations in the Principal Joint Venture Agreement.

The Disposal of the Sale Shares and the Shareholder’s Loan and the signing of the Supplemental Agreement constituted connected transactions for the Company under the Listing Rules as CNAC is a substantial shareholder of the Company. As the total consideration for the Disposal, does not exceed HK\$10,000,000, the Disposal is accordingly only subject to disclosure requirements pursuant to Rule 14.25(1) of the Listing Rules.

SALE AND PURCHASE AGREEMENT DATED 4 FEBRUARY 2004 (“AGREEMENT”)

- Parties:**
- (1) Yardway Limited (“**Yardway**”), a wholly-owned subsidiary of the Company, as the vendor; and
 - (2) Sinoway Development Limited (“**Sinoway**”), a wholly-owned subsidiary of CNAC (a substantial shareholder of the Company holding 22.16% of the issued share capital of the Company), as the purchaser.

Subject matters to be disposed:

The disposal (“**Disposal**”) of the following interests in, and in relation to Sinowin Universal Limited (“**Sinowin**”):

- (1) two ordinary shares in Sinowin (“**Sale Shares**”), being 20% issued share capital of Sinowin and the entire interest of Yardway in Sinowin since its establishment up to the date of the Agreement; and
- (2) a shareholder’s loan in the sum of HK\$4,072,599 extended by Yardway to Sinowin as at the date of the Agreement (“**Shareholder’s Loan**”)

Sinowin was a joint venture established by Yardway and Sinoway in January 2003 in the proportional shareholding of 20% and 80% respectively for the purpose of investment in a joint venture (“**Principal Joint Venture**”) established between, inter alia, New World Development Company Limited(“**NWD**”) (a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (“**SEHK**”)), Trade Port Enterprises Limited (“**Trade Port**”) (a wholly-owned subsidiary of NWD), Sinowin, China National Aviation Corporation (Group) Limited (“**CNAC**”), a controlling shareholder of China National Aviation Company Limited (a company listed on the Main Board of SEHK) and the Company in January 2003. CNAC is a wholly-owned subsidiary of China National Aviation Corporation, which in turn is wholly owned by China National Aviation Holding Company (a company incorporated in the PRC which also owns Air China Group). The Principal Joint Venture is owned as to 50% by Sinowin and as to 50% by Trade Port and is established for carrying business in the acquisition and holding of a property situated in Tsuen Wan, New Territories (“**Property**”) comprising a gross floor area of not less than 20,000 square metre, for the purpose of developing warehousing business in Hong Kong. Currently, as the modification on the user of the Property to godown and/or general industrial use was not yet approved by the Government of Hong Kong (“**Government**”), a temporary waiver on the user of the Property had been granted by the Lands Department. The Property is now being leased to an independent third party engaged in paper business and therefore the current principal business of the Principal Joint Venture is property leasing. Other than the assets and liabilities in relation to the Property and (as regard to Sinowin) the shareholdings in the Principal Joint Venture, the Principal Joint Venture and Sinowin have no other material assets and liabilities. The Company, through Yardway indirectly owned 10% equity interest in the Principal Joint Venture before the Disposal. As at the date of the Agreement, the cost of investment of the Company in Sinowin, which in turn was injected into the Principal Joint Venture, was approximately HK\$4,072,615, including share capital of 2 shares of US\$1.00 each and a shareholder’s loan of HK\$4,072,599. Detail particulars of the Principal Joint Venture and Sinowin were set out in the announcement made by the Company on 24 January, 2003.

Pursuant to the terms of agreement establishing the Principal Joint Venture (“**Principal Joint Venture Agreement**”), each of Trade Port and Sinowin was obliged to inject financing to the Principal Joint Venture by way of interest free shareholders’ loans in proportion to their respective percentage shareholdings in the Principal Joint Venture. The total financing injected to the Principal Joint Venture is approximately HK\$40,119,481. Pursuant to the terms of establishing Sinowin as a joint venture amongst Sinoway and Yardway, each of Sinoway and Yardway was obliged to inject financing to Sinowin by way of interest free shareholders’ loans in proportion to their respective percentage shareholdings in Sinowin, i.e. 80% by Sinoway and 20% by Yardway. Accordingly, as at the date of the Agreement, a shareholder’s loan in the sum of HK\$4,072,599 (including approximately HK\$4,011,948 for its respective percentage shareholdings in the Principal Joint Venture and approximately HK\$60,651 paid to NWD being the proportional interest incurred for the acquisition cost of the Property advanced by NWD before the formation of the Principal Joint Venture borne by Yardway for its 10% indirect interest in the Principal Joint Venture) had been extended by Yardway to Sinowin whereas Sinoway had also injected its sharing of the shareholders’ loans to Sinowin. Such shareholders’ loans were then onwards advanced also by way of interest free shareholders’ loans to the Principal Joint Venture.

The unaudited net loss of Sinowin for the period from 2 January 2003 (i.e. the date of its incorporation) to 31 December, 2003 was HK\$839,780 (before taxation and after taxation) and the unaudited net liabilities of Sinowin as at 31 December 2003 was HK\$839,702. The unaudited net loss of the Principal Joint Venture for the period from 8 January 2003 (i.e. the date of its incorporation) to 31 December, 2003 was HK\$23,401 (before taxation and after taxation) and the unaudited net assets of the Principal Joint Venture as at 31 December 2003 was HK\$40,096,080.

Conditions Precedent and Completion:

Pursuant to the Principal Joint Venture Agreement, Trade Port, NWD and the Principal Joint Venture should be notified on any transfer of interest in Sinowin by Yardway to CNAC. Accordingly, the completion of the Agreement is conditional upon the receipt of acknowledgement on the Disposal from Trade Port, NWD and the Principal Joint Venture. The Company had received the acknowledgement from Trade Port, NWD and the Principal Joint Venture on 4 February 2004 and the Agreement was completed on 5 February 2004.

Consideration:

The consideration for the Disposal in the sum of HK\$4,800,000 had been settled by way of cash. The consideration was arrived at after arm’s length negotiations taking into account the unaudited net liabilities of Sinowin as at 31 December 2003 and the amount of the Shareholder’s Loan. A sum of HK\$389,900 (being an income proportional to the percentage shareholding of the Company in the Principal Joint Venture) that was generated from the leasing of the Property to an independent third party engaged in paper business, for the period from August to December 2003 (“**Relevant Period**”) had been distributed to Yardway before the date of the Agreement. Since Yardway is entitled to 10% of the profit generated from the leasing of the Property, Yardway agreed under the Agreement to reimburse Sinoway 10% of the proportional temporary waiver fees payable to the Government for obtaining the temporary waiver of the user of the Property (being the costs incurred and applicable to the income generated from the leasing of the Property for the Relevant Period), subject to a maximum amount of HK\$389,900, upon the receipt of the formal written notification issued by the Government in respect of the amount of the temporary waiver fees.

Payment Terms:

The consideration had been paid by Sinoway to Yardway forthwith upon the completion of the Agreement on 5 February 2004.

SUPPLEMENTAL AGREEMENT (“SUPPLEMENTAL AGREEMENT”)

Immediately after the completion of the Disposal on 5 February 2004, the entire issued share capital of Sinowin is solely owned by Sinoway and all rights and obligations of Yardway in relation to Sinowin are terminated. A supplemental agreement dated 5 February 2004 was entered into between Trade Port, NWD, Sinowin, CNAC and

the Company for the purposes of confirming, inter alia, (i) an irrevocable, unconditional and full discharge of the Company from all its rights and obligations in the Principal Joint Venture Agreement; and (ii) CNAC irrevocably and unconditionally assumes and undertakes all rights and obligations of the Company under the Principal Joint Venture Agreement.

REASONS FOR THE DISPOSAL

In view of the recent booming of property market in Hong Kong, the directors of the Company (“**Directors**”) foresees that the land premium and administrative fees (“**Land Premium**”) to be payable to the Government in respect of the modification on the user of the Property to godown and/or general industrial use may substantially increase. It is highly likely that the investment cost for the payment of such Land Premium will exceed the initial estimation of HK\$90 million (the initial estimation was determined with reference to an unofficial valuation provided by a valuer before the signing of the Principal Joint Venture Agreement) and the Group’s budget cost of HK\$9 million for its sharing at the time of signing of the Principal Joint Venture Agreement. Further, the process of negotiation with the Government on the Land Premium is a lengthy one and is not likely to be concluded shortly. The Company will have a gain on the Disposal amount to approximately HK\$727,385 in the book of the Company for the year ended 31 March 2004. As a result of the Disposal, the cash at bank and in hand of the Company will be increased by HK\$4.8 million and the profit will be increased by HK\$727,385 for the year ended 31 March 2004. The Directors (including the independent non-executive Directors) therefore considered that the Disposal is fair and reasonable, and it is in the best interests of the Company and its shareholders to realize the profits within the year ended 31 March 2004 as the cash raised from the Disposal will improve the Company’s liquidity (where the current ratio of the Company as at 31 December 2003 would be increased from 1.65 to 1.7) and increase the funds available for broaden the post-sale services of the group (“**Group**”) of which the Company is the holding company to the customers in the PRC.

The Group is principally engaged in the sale and distribution of vehicles and equipment covering most transport sectors with a specialization in railway maintenance equipment, airport ground support equipment and coaches and trucks. The whole amount of the proceeds will be applied to the construction of a processing plant in Zhuhai for assembling railway maintenance equipment like welding machine and grinding stone. The construction of the processing plant has already been approved by the relevant authorities in Zhuhai. The Company is now initially negotiating with certain construction design companies in respect of the building plan of the processing plant and no payment term had been agreed by the Company yet. It is expected that the construction will be completed around the first quarter of 2005 and the operation of the processing plant will be commenced as soon as practicable after the completion of the construction. To the extent that the proceeds of the Disposal are not immediately required for the construction, it is the present intention of the Directors that they will be placed on short-term deposits with financial institutions in Hong Kong.

CONNECTED TRANSACTIONS

The Disposal of the Sale Shares and the Shareholder’s Loan and the signing of the Supplemental Agreement constituted connected transactions for the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“**Listing Rules**”) as CNAC is a substantial shareholder of the Company. As the total consideration for the Disposal, does not exceed HK\$10,000,000, the Disposal is accordingly only subject to disclosure requirements pursuant to Rule 14.25(1) of the Listing Rules.

CHANGE OF USE OF PROCEEDS OF INITIAL PUBLIC OFFERS

In order to cope with the recent development of the businesses of the Group and as a result of the Disposal, the Directors (including the Independent non-executive Directors) had resolved to change part of the use of proceeds disclosed in the prospectus in relation to initial public offers dated 19 March 2002 issued by the Company and the announcement dated 24 January 2003 as follows:

Original scheduled specific use of proceeds	Proposed change of /existing specific use of proceeds
<ul style="list-style-type: none"> about HK\$5 million to be utilised for participating in the Principal Joint Venture 	<ul style="list-style-type: none"> about HK\$5 million to be utilised for construction of a processing plant in Zhuhai for assembling railway maintenance equipment like welding machine and grinding stone
<ul style="list-style-type: none"> about HK\$8 million to be utilised for the setting up a wholly foreign owned enterprise in the PRC to engage in inter alia, developing, design, manufacturing and sales of sorting and conveyor system, welding machines and railway maintenance equipment and the design, development and installation of logistics related equipment 	<ul style="list-style-type: none"> utilised or to be utilised as per schedule
<ul style="list-style-type: none"> about HK\$4 million for the expansion of the sales and marketing team in both Hong Kong and the PRC 	<ul style="list-style-type: none"> utilised or to be utilised as per schedule
<ul style="list-style-type: none"> about HK\$5 million for the expansion of the Group’s after sales services, including acquiring and upgrading in-house facilities and for recruitment of additional engineers 	<ul style="list-style-type: none"> utilised or to be utilised as per schedule
<ul style="list-style-type: none"> about HK\$2 million for the promotion of the Group’s corporate profile by participating in relevant exhibitions and organising seminars introducing new equipment to potential customers 	<ul style="list-style-type: none"> utilised or to be utilised as per schedule

The Directors are of the view that the change of the above specific use of proceeds will facilitate the Group to broaden the post-sale services available to its customers in the PRC and is therefore in the benefit of the Company and its shareholders taken as a whole. Should there be any other changes in the use of proceeds in the future, further announcement will be made to disclose the relevant changes.

By Order of the Board
Fong Kit Wah Alan
Chairman

Hong Kong, 13 February 2004

The Directors of the Company jointly and severally accept full responsibility of the accuracy of the information contained in this announcement and confirm having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.