THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

This circular does not constitute an offer or invitation to subscribe for or purchase any securities of South China Information and Technology Limited nor is it calculated to invite any such offer or invitation.

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 South China Information and Technology Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

South China Information and Technology Limited
(incorporated in the Cayman Islands with limited liability)

Proper Glory Holding Inc.
(incorporated in the British Virgin Islands with limited liability)

PROPOSED FINANCIAL RESTRUCTURING OF SOUTH CHINA INFORMATION AND TECHNOLOGY LIMITED COMPRISING SHARE CONSOLIDATION, SUBSCRIPTION OF SUBSCRIPTION SHARES, DISPOSAL AGREEMENT, NOVATION DEEDS, MANAGEMENT AGREEMENT AND JOINT VENTURE DEED (MAJOR AND CONNECTED TRANSACTIONS) WHITEWASH WAIVER, SPECIAL DEAL CONSENTS, PROVISION OF GUARANTEES, GENERAL MANDATE TO ISSUE NEW SHARES, GENERAL MANDATE TO REPURCHASE NEW SHARES AND CHANGE OF COMPANY NAME

Financial adviser to South China Information and Technology Limited

道亨證券有限公司
DaoHeng Securities Ltd.

Financial adviser to Proper Glory Holding Inc.

CEF Capital Limited

Joint independent financial advisers to the Independent Board Committee of South China Information and Technology Limited

KGI Asia Limited

Baron Capital Limited

A letter of advice from KGI Asia Limited and Baron Capital Limited containing their opinion to the Independent Board Committee regarding the Financial Restructuring Proposal (including the special deals), the grant of the Whitewash Waiver and the Non-exempted Connected Transaction is set out on pages 55 to 87 of this circular.

A letter from the Independent Board Committee containing its advice to the Independent Shareholders in respect of the Financial Restructuring Proposal, the grant of the Whitewash Waiver and the Non-exempted Connected Transaction is set out on pages 53 and 54 of this circular.

Notices convening two extraordinary general meetings of South China Information and Technology Limited to be held at 10:00 a.m. on Monday, 24th June, 2002 and at 10:00 a.m. on Tuesday, 2nd July, 2002, both at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong are set out on pages 194 to 203 of this circular. Forms of proxy for use at the extraordinary general meetings are enclosed. Whether or not you intend to attend the meeting, you are requested to complete the accompanying forms of proxy and return them in accordance with the instructions printed thereon as soon as possible to the branch share registrar of South China Information and Technology Limited in Hong Kong, Standard Registrars Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong and in any event not less than 48 hours before the time appointed for the holding of the meetings or any adjourned meetings. Completion and return of the forms of proxy will not preclude you from attending and voting in person at the extraordinary general meetings or any adjourned meetings should you so wish.

7th June, 2002

CONTENTS

CONTENTS

Page

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

"Announcement"	the announcement dated 2nd May, 2002 made jointly by SCI, SCIT and Proper Glory regarding, among others, the Financial Restructuring Proposal
"Baron Capital"	Baron Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and one of the joint independent financial advisers to the Independent Board Committee
"Board"	the board of Directors
"Capital Reduction"	the reduction of the share capital of SCIT by cancelling the issued and paid up share capital to the extent of HK$0.09 on each of the shares of HK$0.10 and thereby reducing the nominal value of all the issued shares from HK$0.10 each to HK$0.01 each which has become effective on 28th May, 2002, details of which are set out in the circular of SCIT dated 1st February, 2002
"Capital Reorganisation"	the share capital reorganisation of SCIT approved by the shareholders of SCIT at an extraordinary general meeting on 28th February, 2002 involving, among others, the Capital Reduction, the cancellation of the special reserve and share premium account of SCIT and the diminution and subsequent increase in authorised share capital to HK$100,000,000 by the creation of such additional new shares, details of which are set out in the circular of SCIT dated 1st February, 2002
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CEF Capital"	CEF Capital Limited, a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the financial adviser to Proper Glory
"Completion Date"	a date falling three business days after the date on which Proper Glory being notified by SCIT that the conditions precedent set out in the Subscription Agreement are fulfilled or waived, which is currently expected to be 27th June, 2002, or such other date as the parties thereto may agree prior to completion of the Subscription Agreement, subject to trading in the shares of HK$0.02 each of SCIT on the Stock Exchange not being suspended on that day or, if trading is suspended, the completion date shall be deferred to the next business day on which there is no such suspension

"Composite Consumer Price Index/Indices"	the composite consumer price index/indices as published by the Hong Kong Census and Statistics Department of Hong Kong from time to time
"Consideration"	HK$66,000,000 payable for the Subscription Shares
"Court"	the Grand Court of the Cayman Islands
"Dao Heng Securities"	Dao Heng Securities Limited, an investment adviser and a securities dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the financial adviser to SCIT
"Directors"	directors, including the independent non-executive directors, of SCIT
"Disposal Agreement"	the conditional agreement dated 22nd April, 2002 entered into between SCIT, as vendor, and SCI, as purchaser, in relation to the disposal of the Sale Interest by SCIT to SCI
"Disposal Company"	South China Strategic (BVI) Limited, a direct wholly-owned subsidiary of SCIT before completion of the Disposal Agreement and the intermediate holding company of all the SCIT Group's operating subsidiaries except SI-IT Business Company and its subsidiaries
"Executive"	The Executive Director of the Corporate Finance Division of the SFC or any of his delegates
"Existing Share(s)"	existing share(s) of HK$0.01 each in the share capital of SCIT prior to the Share Consolidation becoming effective
"Extension Mandate"	the proposed general mandate to be sought at the First Extraordinary General Meeting to authorise the Directors to extend the General Mandate in the manner as set out in the Notice of the First Extraordinary General Meeting included in this circular
"Financial Restructuring Proposal"	the conditional financial and capital restructuring proposal of the SCIT Group comprising principally (i) the Share Consolidation, (ii) the Subscription Agreement, (iii) the Disposal Agreement, (iv) the Management Agreement, (v) the Joint Venture Deed, and (vi) the Novation Deeds

"First Extraordinary General Meeting"	an extraordinary general meeting of SCIT to be convened to consider and, if thought fit, approve, among other matters, the Share Consolidation, the Subscription Agreement, the Disposal Agreement, the Management Agreement, the Joint Venture Deed and other transactions contemplated under the Financial Restructuring Proposal, and the general mandates to issue and repurchase the New Shares (or any adjournment thereof)
"Fook Cheung"	Fook Cheung Developments Limited, a wholly owned subsidiary of SCI incorporated in the British Virgin Islands which will become the registered owner of 49% of the issued share capital in the SI-IT Business Company
"General Mandate"	the proposed general mandate to be sought at the First Extraordinary General Meeting to authorize the Directors to allot and issue New Shares in the manner as set out in the Notice of the First Extraordinary General Meeting included in this circular
"Grandwood Trading Limited"	a company incorporated in Hong Kong and a wholly-owned subsidiary of Wah Shing International Holdings Limited, a company in which SCI has a shareholding interest of 52.77% and the shares of which are listed on the Singapore Exchange Securities Trading Limited
"Guarantees"	certain specified existing corporate guarantees given by SCIT in favour of certain banks in respect of the borrowings by certain group companies of the Disposal Company up to a maximum aggregate amount of HK$125.3 million; the actual aggregate amount of such borrowings as at the Latest Practicable Date was approximately HK$121 million
"HIBOR"	Hong Kong interbank offered rate
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee of SCIT comprising Ms. Tse Wong Siu Yin, Elizabeth and Mr. Yeung Chik Kin, independent non-executive Directors, duly appointed by the Board for the purpose of advising the Independent Shareholders in relation to the Financial Restructuring Proposal, the grant of Whitewash Waiver and the Non-exempted Connected Transaction

"Independent Shareholders"	shareholders of SCIT other than those who are involved in, or interested in, the Financial Restructuring Proposal, being shareholders other than SCI, parties acting in concert with it and their respective associates (as defined in the Listing Rules)
"Joint Venture Deed"	the joint venture deed dated 22nd April, 2002 entered into between the SI-IT Business Company, Fook Cheung, SCIT and SCI regulating the operation and management of the SI-IT Business Company and its subsidiaries with effect from completion of the Disposal Agreement, taking into account the Disposal Agreement and the Management Agreement
"KGI Asia"	KGI Asia Limited, a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and one of the joint independent financial advisers to the Independent Board Committee
"Latest Practicable Date"	4th June, 2002, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan Assignment"	the loan assignment deed to be entered into between South China Strategic Limited and SCI pursuant to which a loan in the amount of HK$7,500,000 owing from Fourseas.com Limited and its subsidiaries to South China Strategic Limited will be assigned to SCI (or its nominee)
"Long Stop Date"	22nd July, 2002, the date falling 3 months from 22nd April, 2002, the date of the Subscription Agreement, or such later date as Proper Glory, SCI and SCIT may agree in writing
"Management Agreement"	the conditional agreement dated 22nd April, 2002 entered into between SCIT, the SI-IT Business Company and SCI in relation to the appointment of SCI as a manager to provide management services to the SI-IT Business Company and its subsidiaries for a fee for a term of six years commencing from the Completion Date
"New Shares"	share(s) of HK$0.02 each in the share capital of SCIT upon the Share Consolidation becoming effective

"Non-exempted Connected Transaction"	the connected transaction to be engaged into between SCIT and the SI-IT Business Company regarding the Guarantees after completion of the Financial Restructuring Proposal, for which SCIT will seek the approval of the Independent Shareholders at the First Extraordinary General Meeting
"Novation Deeds"	the novation deeds in relation to the Travel Business Agreements to be entered into between SCIT, SCI and the other parties to the Travel Business Agreements, pursuant to which certain of SCIT's rights and obligations under the Travel Business Agreements are novated to SCI (or its nominee)
"Ongoing Connected Transactions"	the connected transactions contemplated under the Management Agreement entered into between SCI, SCIT and SI-IT Business Company which will be engaged into on an ongoing basis between SCI, SCIT and SI-IT Business Company to facilitate the Financial Restructuring Proposal, details of which are set out in the section headed "Ongoing Connected Transactions" in the letter from the Board of this circular
"Onswin Limited"	a company incorporated in the British Virgin Islands and a wholly owned subsidiary of SCI
"Operating Losses"	the amount by which the sum of the cost of goods sold and/or services provided plus operating expenses of the SI-IT Business Company (and its subsidiaries) exceeds its operating revenues, which will apply only to the normal business activities of the SI-IT Business Company (and its subsidiaries) excluding any financial revenues and expenses and exceptional/extraordinary items
"Option Interest"	the 51 per cent. interest in the SI-IT Business Company beneficially owned by SCIT following completion of the Disposal Agreement
"PRC"	the People's Republic of China which, for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
"Proper Glory"	Proper Glory Holding Inc., a company incorporated in the British Virgin Islands with limited liability and the details of its beneficial owners are set out in the section headed "Information of Proper Glory" in the letter from Proper Glory of this circular

"Put Option"	the right of SCIT to require SCI to acquire the Option Interest at a consideration of HK$5,500,000
"Repurchase Mandate"	the proposed general mandate to be sought at the First Extraordinary General Meeting to authorize the Directors to repurchase New Shares in the manner as set out in the notice of the First Extraordinary General Meeting included in this circular
"Sale Interest"	the entire issued share capital of the Disposal Company and 49 per cent. of the issued share capital in the SI-IT Business Company
"SCI"	South China Industries Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange and the controlling shareholder of SCIT
"SCI Group"	SCI and its subsidiaries
"SCIT"	South China Information and Technology Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the main board of the Stock Exchange and are held by SCI, its controlling shareholder, as to approximately 70.35% of its issued share capital
"SCIT Group"	SCIT and its subsidiaries
"SDI Ordinance"	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
"Second Extraordinary General Meeting"	an extraordinary general meeting of SCIT to be convened to consider and, if thought fit, approve the change of name of the company (or any adjournment thereof)
"SFC"	The Securities and Futures Commission of Hong Kong
"Share Consolidation"	the consolidation of 2 shares of HK$0.01 each in SCIT into one New Share
"Shareholders"	shareholders of SCIT
"Shareholders' Loan"	all amounts due from the SCIT Group to SCI Group, which are unsecured and the aggregate amount of which shall not exceed HK$333,000,000 as at completion of the Subscription Agreement; and the aggregate amount of which is estimated to be approximately HK$320,000,000 as at the Latest Practicable Date and was approximately HK$293,223,000 and HK$296,835,000 as at 31st December, 2000 and 31st December, 2001 respectively

"SI-IT Business"	the system integration and software development businesses carried on by the SCIT Group through two joint venture enterprises, namely, Nanjing South China Skytech Information Technology Co., Ltd. (of which the SCIT Group has 66.7 per cent. interest) and Chongqing South China Zenith Information Technology Co., Ltd. (of which the SCIT Group has 60 per cent. interest) established in Nanjing and Chongqing respectively, the PRC, through the SI-IT Business Company as at the date of the Subscription Agreement
"SI-IT Business Company"	Deep Treasure Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a direct wholly-owned subsidiary of SCIT before completion of the Disposal Agreement
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription Agreement"	the conditional agreement dated 22nd April, 2002 entered into between Proper Glory, SCI and SCIT in relation to the subscription of the Subscription Shares by Proper Glory and the issue of the Subscription Shares by SCIT and the conditional grant of the Put Option by SCI to SCIT
"Subscription Shares"	3,000,000,000 New Shares to be allotted and issued by SCIT to Proper Glory pursuant to the Subscription Agreement
"Takeovers Code"	The Hong Kong Code on Takeovers and Mergers
"Travel Business Agreements"	collectively, the agreements in relation to a financial restructuring exercise of Fourseas.com Limited which involved, among others, the subscription of new shares in Fourseas.com Limited by Giant Glory Assets Limited, the disposal of interests in certain then subsidiaries of Fourseas.com Limited to SCIT and the provision of management services to certain subsidiaries of Fourseas.com Limited by SCIT, which include, the subscription agreement relating to Fourseas.com Limited dated 18th June, 2001 entered into between Fourseas.com Limited, Giant Glory Assets Limited and SCIT as supplemented by a supplemental agreement dated 27th June, 2001, the management agreement dated 18th June, 2001 entered into between, among others, Fourseas.com Limited and SCIT, the disposal agreement dated 18th June, 2001 entered into between Four Seas Travel Investments Limited and SCIT and certain joint venture deeds in relation to certain subsidiaries of Fourseas.com Limited, the details of which were announced in the joint announcement of SCIT and Fourseas.com Limited dated 28th June, 2001

"Whitewash Waiver"	a waiver pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Takeovers Code applied for by Proper Glory from the requirement to make a mandatory general offer under Rule 26 of the Takeovers Code
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"%"	per cent.

Please note that the expected timetable below for the Share Consolidation is subject to the results of the First Extraordinary General Meeting and the completion of the Financial Restructuring Proposal. Shareholders will be informed of the results of the First Extraordinary General Meeting, the effective date of the change of company name and changes to the expected timetable, if any, by press notices in due course.

	2002
Latest time for lodging forms of proxy for the First Extraordinary General Meeting	10:00 a.m. on Saturday, 22nd June
First Extraordinary General Meeting	10:00 a.m. on Monday, 24th June
Effective Date of Share Consolidation	after 4:00 p.m. on Monday, 24th June
Closure of original counter for trading in Existing Shares in board lots of 20,000	9:30 a.m. on Tuesday, 25th June
Establishment of temporary counter for trading in New Shares in board lots of 10,000 (represented by certificates for the Existing Shares)	9:30 a.m. on Tuesday, 25th June
First day of free exchange of certificates for the Existing Shares for certificates for the New Shares	Tuesday, 25th June
Date of completion of the Subscription Agreement and the Disposal Agreement	Thursday, 27th June
Latest time for lodging forms of proxy for the Second Extraordinary General Meeting	10:00 a.m. on Sunday, 30th June
Second Extraordinary General Meeting	10:00 a.m. on Tuesday, 2nd July
Original counter for trading in New Shares in board lots of 5,000 re-opens (represented by certificates for the New Shares)	9:30 a.m. on Wednesday, 10th July
Parallel trading commences	9:30 a.m. on Wednesday, 10th July
First day of operation of odd lot trading facility	Wednesday, 10th July
Closure of temporary counter for trading in New Shares in board lots of 10,000	4:00 p.m. on Wednesday, 31st July
Parallel trading ends	4:00 p.m. on Wednesday, 31st July
Last day of operation of odd lot trading facility	Wednesday, 31st July
Last day of free exchange of certificates for the Existing Shares for certificates for the New Shares	Monday, 5th August

South China Information and Technology Limited

(incorporated in the Cayman Islands with limited liability)

Executive Directors:
Ng Hung Sang, Robert *(Chairman and Chief Executive)*
Cheung Wing Hung, Vincent *(General Manager)*
Richard Howard Gorges
Cheung Choi Ngor, Christina
Ng Yuk Mui, Jessica

Independent Non-executive Directors:
Tse Wong Siu Yin, Elizabeth
Yeung Chik Kin

Registered office:
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal place of business in Hong Kong:
28th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

7th June, 2002

To the Shareholders

Dear Sir or Madam,

PROPOSED FINANCIAL RESTRUCTURING OF SOUTH CHINA INFORMATION AND TECHNOLOGY LIMITED COMPRISING SHARE CONSOLIDATION, SUBSCRIPTION OF SUBSCRIPTION SHARES, DISPOSAL AGREEMENT, NOVATION DEEDS, MANAGEMENT AGREEMENT AND JOINT VENTURE DEED (MAJOR AND CONNECTED TRANSACTIONS) WHITEWASH WAIVER, SPECIAL DEAL CONSENTS, PROVISION OF GUARANTEES, GENERAL MANDATE TO ISSUE NEW SHARES, GENERAL MANDATE TO REPURCHASE NEW SHARES AND CHANGE OF COMPANY NAME

INTRODUCTION

On 2nd May, 2002, Proper Glory, SCI and SCIT jointly announced that (i) the Subscription Agreement, (ii) the Disposal Agreement, (iii) the Management Agreement and (iv) the Joint Venture Deed were entered into on 22nd April, 2002 to give effect to the Financial Restructuring Proposal. The Financial Restructuring Proposal also involves, among other things, the Share Consolidation.

The Financial Restructuring Proposal may only proceed with the approval of the Independent Shareholders. As Mr. Ng Hung Sang, Robert, Mr. Cheung Wing Hung, Vincent, Mr. Richard Howard Gorges, Ms. Cheung Choi Ngor, Christina and Ms. Ng Yuk Mui, Jessica were nominated as executive Directors by SCI, they are not considered independent to advise the Independent Shareholders insofar as the Financial Restructuring Proposal is concerned and therefore have not participated in formulating a recommendation to the Independent Shareholders so as to avoid any conflicts of interest which may arise as a result of their positions. The Independent Board Committee comprising Ms. Tse Wong Siu Yin, Elizabeth and Mr. Yeung Chik Kin, the independent non-executive Directors, has been appointed by the Board for the purpose of advising the Independent Shareholders on the terms of the Financial Restructuring Proposal (including the special deals), the grant of the Whitewash Waiver and the Non-exempted Connected Transaction. KGI Asia and Baron Capital have been appointed as the joint independent financial advisers to advise the Independent Board Committee as to whether the terms of the Financial Restructuring Proposal (including the special deals), the grant of the Whitewash Waiver and the Non-exempted Connected Transaction are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of SCIT and the Independent Shareholders as a whole.

The purpose of this circular is to provide you with further information on the Financial Restructuring Proposal, to set out the advice of KGI Asia and Baron Capital to the Independent Board Committee and the advice of the Independent Board Committee to the Independent Shareholders in respect of the Financial Restructuring Proposal and to give you the notice of the First Extraordinary General Meeting at which meeting necessary resolutions will be proposed to seek your approval of the Financial Restructuring Proposal, the grant of the Whitewash Waiver and the Non-exempted Connected Transaction. The notice of the Second Extraordinary General Meeting at which meeting a special resolution will be proposed to change the company name of SCIT is also set out in this circular.

THE FINANCIAL RESTRUCTURING PROPOSAL

The Board proposes to effect the Financial Restructuring Proposal, which comprises the following components:

1. Share Consolidation and trading arrangements

(A) *Share Consolidation*

As at the Latest Practicable Date, the authorised share capital of SCIT is HK$100,000,000 comprising 10,000,000,000 Existing Shares, of which 680,529,805 Existing Shares have been allotted, issued and fully paid or credited as fully paid. On 11th January, 2002, SCIT announced the Capital Reorganisation to the Shareholders and a circular containing details of it was despatched to the Shareholders on 1st February, 2002. An extraordinary general meeting for this purpose was held on 28th February, 2002 and the Capital Reorganisation was approved by the Shareholders at the meeting. The Capital Reorganisation became effective on 28th May, 2002. As part of the Financial Restructuring Proposal, the Board proposes the Share Consolidation where after completion of the Capital Reorganisation, every two Existing Shares will be consolidated into one New Share.

The Share Consolidation is conditional on and will become effective after the passing of all necessary resolutions by the Independent Shareholders approving, amongst others, the Share Consolidation at the First Extraordinary General Meeting.

The authorised share capital of SCIT upon the Share Consolidation becoming effective but prior to completion of the Subscription Agreement will be HK$100,000,000 comprising 5,000,000,000 New Shares assuming that there is no further issue of the Existing Shares or the New Shares, of which 340,264,902 New Shares representing an issued share capital of HK$6,805,298.04 will be issued and credited as fully paid and of which 4,659,735,098 New Shares representing a share capital of HK$93,194,701.96 will be unissued.

(B) *Share certificates and trading arrangements*

Subject to the Share Consolidation becoming effective which is expected to be after 4:00 p.m. on Monday, 24th June, 2002, all certificates for the Existing Shares (which are printed in blue) will be replaced with certificates for the New Shares (which will be printed in light yellow) for the purposes of trading in the market. The board lot size of the New Shares will be changed from 20,000 shares to 5,000 shares.

Under the Financial Restructuring Proposal, certificates for the Existing Shares in issue before 4:00 p.m. on Wednesday, 31st July, 2002, will continue to be effective as documents of title and to be valid for trading, settlement and delivery purposes, for half of the number of New Shares. Parallel trading arrangements have been established with the Stock Exchange and parallel trading will be permitted from 9:30 a.m. on Wednesday, 10th July, 2002 to 4:00 p.m. on Wednesday, 31st July, 2002, both dates inclusive, at the counters detailed in (i) and (ii) below:

(i) at 9:30 a.m. on Tuesday, 25th June, 2002, a temporary counter for trading in New Shares in board lots of 10,000 (represented by certificates for the Existing Shares) will be established. Certificates for the Existing Shares can only be traded at this counter as from that date. Every certificate for the Existing Shares will be valid for trading, settlement registration and delivery purposes for trading transacted at this counter for half of the number of the New Shares. The original counter for trading in the Existing Shares in board lots of 20,000 will be temporarily closed with effect from 9:30 a.m. on Tuesday, 25th June, 2002; and

(ii) with effect from 9:30 a.m. on Wednesday, 10th July, 2002, the original counter for trading in the Existing Shares in board lots of 20,000 will be re-established as a counter for trading in the New Shares in board lots of 5,000. Only certificates for the New Shares can be traded at this counter.

The temporary counter for trading in the New Shares in board lots of 10,000 (represented by certificates for the Existing Shares) will be removed after 4:00 p.m. on Wednesday, 31st July, 2002. Thereafter trading will only be in the New Shares in board lots of 5,000 and certificates for the Existing Shares will cease to be valid for trading and settlement purposes but will remain effective as documents of title.

After Monday, 24th June, 2002, only certificates for the New Shares will be issued. Shareholders may from 9:00 a.m. on Tuesday, 25th June, 2002 to 4:00 p.m. on Monday, 5th August, 2002 submit the certificates for the Existing Shares to SCIT's branch share registrar in Hong Kong, Standard Registrars Limited, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, in respect of the Existing Shares in exchange, free of charge, for certificates for the New Shares. During this period, it is expected that certificates for the New Shares will be ready within ten working days from the submission of certificates for the Existing Shares.

After 5th August, 2002, certificates for the Existing Shares will be accepted for exchange for certificates for the New Shares only on payment of a fee of HK$2.50 for each certificate (or such higher amount as may from time to time be allowed by the Stock Exchange). It is expected that certificates for the New Shares will be available to the Shareholders within ten working days from the submission of certificates for the Existing Shares.

(C) *Arrangement for odd lot trading*

In order to alleviate the difficulties of trading in odd lots of New Shares as a result of the Share Consolidation, SCIT has appointed South China Securities Limited to provide matching services to Shareholders who wish to dispose of or top up their odd lots of the New Shares to board lots of 5,000, at their own cost, during the period from Wednesday, 10th July, 2002 to Wednesday, 31st July, 2002. Shareholders who wish to take advantage of this facility may through their broker contact Mr. Benjamin Chan at South China Securities Limited at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong (Tel: 2971 0073) during such period. Holders of the New Shares in odd lots should note that successful matching of the sale and purchase of odd lots of the New Shares is not guaranteed.

Shareholders are recommended to consult their own professional advisers if they are in any doubt about the facility described above.

2. **The Subscription Agreement**

Date:	22nd April, 2002
Subscriber:	Proper Glory
Issuer:	SCIT
Other party:	SCI

(A) *The Subscription*

Number of Subscription Shares:	3,000,000,000 New Shares, representing (i) approximately 8.82 times of the 340,264,902 issued New Shares of SCIT immediately after the Capital Reorganisation and Share Consolidation becoming effective but prior to the issue of the Subscription Shares; or (ii) approximately 89.81 per cent. of the 3,340,264,902 issued New Shares of SCIT after the Capital Reorganisation and Share Consolidation becoming effective and enlarged by the issue of the Subscription Shares.
Consideration:	HK$66,000,000 at a subscription price of HK$0.022 per Subscription Share.

The subscription price of HK$0.022 per Subscription Share represents:

(i) a discount of approximately 71.8 per cent. to the audited net asset value of approximately HK$0.078 for 2 Existing Shares based on the audited consolidated accounts of SCIT as at 31st December, 2001;

(ii) a discount of approximately 97.8 per cent. to the aggregate closing prices of HK$1.00 for 2 Existing Shares quoted on the Stock Exchange on 18th April, 2002 prior to the suspension of trading in the Existing Shares on 18th April, 2002;

(iii) a discount of approximately 97.2 per cent. to the average closing price of approximately HK$0.785 for 2 Existing Shares quoted on the Stock Exchange for the 10 trading days up to and including 18th April, 2002;

(iv) a discount of approximately 97.1 per cent. to the aggregate closing prices of HK$0.77 for 2 Existing Shares quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a discount of approximately 97.1 per cent. to the average closing price of approximately HK$0.771 for 2 Existing Shares quoted on the Stock Exchange for the 10 trading days up to and including the Latest Practicable Date.

Basis of the Consideration: The Consideration was determined and negotiated on an arm's length basis amongst the parties to the Subscription Agreement after taking into account the SCIT Group's pro forma net asset position of approximately HK$1.5 million upon completion of the Subscription Agreement (based on the net asset value of the SCIT Group as at 31st December, 2001 of approximately HK$26.5 million (equivalent to approximately HK$0.039 per share) and adjusted by the subscription of the Subscription Shares and the disposal of the Disposal Company as contemplated under the Financing Restructuring Proposal) and the fact that SCIT has been loss making for the three years ended 31st December, 2001. For the years ended 31st December, 1999, 2000 and 2001, the audited losses attributable to the Shareholders were approximately HK$52 million, HK$48 million and HK$103 million respectively.

Payment: The Consideration for the Subscription Shares will be paid by Proper Glory to SCIT in the following manner:

(i) on 22nd April, 2002, Proper Glory deposited a sum of HK$6,000,000 with an escrow agent as stakeholder money to be released and applied as follows:

(a) in the event that Proper Glory fails to complete the Subscription Agreement without valid legal reasons, the sum of HK$6,000,000 (together with interest accrued thereon) shall be paid to SCI and SCIT in equal share as liquidated damages;

(b) upon completion of the Subscription Agreement, as part of the Consideration, the sum of HK$6,000,000 shall be paid to SCI (as directed by SCIT) in discharge of an equivalent amount of the Shareholders' Loan, and any interest accrued thereon shall be paid to Proper Glory; and

(c) if neither (a) or (b) above occurs on or before the Long Stop Date, i.e. 3 months from 22nd April, 2002, the sum of HK$6,000,000 (together with interest accrued thereon) shall be refunded to Proper Glory;

(ii) upon completion of the Subscription Agreement, cash of HK$59,000,000 shall be paid by Proper Glory to SCI (as directed by SCIT) as repayment of an equivalent amount of the Shareholders' Loan and the balance of HK$1,000,000 shall be paid by Proper Glory to SCIT.

Use of proceeds: The gross proceeds from the issue of the Subscription Shares, being HK$66,000,000, will be applied as to HK$65,000,000 towards repayment of an equivalent amount of the Shareholders' Loan at the Completion Date and as to HK$1,000,000 for the general working capital of SCIT.

The Shareholders' Loan has been charged by the SCI Group at interest rates ranging from nil per cent. to 1 per cent. above the Hong Kong prime lending rate on normal commercial terms with reference to the borrowing costs of SCIT. As at the Latest Practicable Date, all the bank borrowings of SCIT of approximately HK$121 million are fully secured by certain of the group's property interests and corporate guarantees given by SCIT and the interest rates charged by relevant banks ranged from 1.75 per cent. below to 1.0 per cent. above the Hong Kong prime lending rate, and 2 per cent. over HIBOR. For the years ended 31st December, 2000 and 31st December, 2001, total interest expenses amounted to approximately HK$26.0 million and HK$23.2 million respectively.

(B) *Put Option*

Put Option: In accordance with the terms of the Subscription Agreement, SCI granted the Put Option to SCIT, which is exercisable by SCIT within 549 days from the Completion Date (or such longer period as may be agreed between SCI and SCIT).

Consideration: The Put Option is part of the Subscription Agreement and no additional monetary consideration was given for the granting of the Put Option.

Exercise price: HK$5,500,000

Basis of the exercise price:	The exercise price of HK$5,500,000 payable by SCI for the acquisition of the Option Interest was agreed upon after arm's length negotiation between the relevant parties having taken into account the other major terms of the Financial Restructuring Proposal, i.e. the Disposal Agreement, the Management Agreement, the Share Consolidation and the Joint Venture Deed, the expected improving operating results of the SI-IT Business Company (as a result of technological development, marketing and promotional support from SCI and the connection of the potential controlling shareholder in the PRC), and the gaining by SCI of 51% majority shareholding in the SI-IT Business Company not already owned by SCI after the exercise of the Put Option.
Payment:	The exercise price of HK$5,500,000 shall be paid to SCIT on the 14th business day immediately following the date of exercise of the Put Option, as to HK$500,000 by cashier order(s) and as to HK$5,000,000 by way of a set off against the balance of the Shareholders' Loan. Any balance of the Shareholders' Loan which exceeds HK$5 million after completion of the Subscription Agreement and the Disposal Agreement will be waived.

(C) *Other major terms of the Subscription Agreement*

Major warranties, undertakings and indemnities:	(i) Subject to completion of the Subscription Agreement, SCIT undertakes to repay a sum of HK$5,000,000 to SCI, being part of the Shareholders' Loan, within 550 days (subject to extension as provided in the Management Agreement) from the Completion Date;
	(ii) subject to completion of the Subscription Agreement, SCI unconditionally and irrevocably undertakes with SCIT that it will assume and be responsible for and indemnify SCIT for all the liabilities of SCIT as at completion of the Subscription Agreement (other than the Shareholders' Loan). The directors of SCIT and SCI consider that those liabilities which are material in the context of the business of the SCIT Group comprise the liabilities under the Guarantees and certain other contingent liabilities of SCIT. The total outstanding borrowings of the SCIT Group as at 31st March, 2002 were approximately HK$442 million; and

(iii) subject to completion of the Subscription Agreement, SCI shall procure that SCIT is released from the Guarantees as soon as practicable and, in any event, within 60 days from completion of the Subscription Agreement or, in certain cases, 90 days from completion of the Subscription Agreement. If the Guarantees are not released at completion of the Subscription Agreement, SCI will deposit a sum of HK$6,000,000 (in escrow) as security for the outstanding liabilities of SCIT under the Guarantees.

Novation Deeds and Loan Assignment

Contemporaneously at completion of the Subscription Agreement and the Disposal Agreement, SCIT and SCI (or its nominee) shall, and Proper Glory shall procure that the parties to each Travel Business Agreement (other than SCIT and SCI (or its nominee)) shall, enter into the Novation Deeds, in the form as appended to the Subscription Agreement, at nil consideration pursuant to which SCIT shall novate to SCI (or its nominee) all SCIT's rights and obligations arising under the Travel Business Agreements, in so far as and to the extent that those rights and obligations are still outstanding as at completion of the Subscription Agreement and the Disposal Agreement, including but not limited to the put option granted by SCIT to Fourseas.com Limited and the provision of management services under the Travel Business Agreements, details of which were disclosed in the circular of Fourseas.com Limited dated 2nd August, 2001 to the intent that the put option will be enforceable against SCI to require SCI to acquire the remaining 51 per cent. interest in six subsidiaries of Fourseas.com Limited which are engaged in the travel and related business and the management services will be performed by SCI. The form of Novation Deeds has been appended to the Subscription Agreement. Further, at such completion, South China Strategic Limited, a wholly-owned subsidiary of the Disposal Company, shall assign to SCI (or its nominee) a loan owing from Fourseas.com Limited and its subsidiaries in the amount of HK$7,500,000 pursuant to the Loan Assignment.

(D) *Conditions precedent*

(i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Subscription Shares and all New Shares in issue immediately after the completion of the Capital Reorganisation and the Share Consolidation;

(ii) the passing of the necessary resolutions (by way of a poll) by the Independent Shareholders at the First Extraordinary General Meeting to approve the terms of and the transactions contemplated under the Subscription Agreement, the Novation Deeds, the Loan Assignment, the Disposal Agreement, the Management Agreement, the Joint Venture Deed and the implementation thereof and authorising the allotment and issue of the Subscription Shares;

(iii) the passing of the necessary resolutions by the independent shareholders of SCI at general meeting to approve the terms of and the transactions contemplated under the Subscription Agreement, the Novation Deeds, the Loan Assignment, the Disposal Agreement, the Management Agreement and the Joint Venture Deed and the implementation thereof (if required under the Listing Rules or by the Stock Exchange);

(iv) the passing of the necessary resolutions by the Shareholders at the First Extraordinary General Meeting to approve the Share Consolidation, and all necessary court or other approvals being obtained;

(v) (if necessary) the passing of the necessary resolutions by the shareholders of Fourseas.com Limited in general meeting to approve the terms of and the transactions contemplated under the Novation Deeds and the Travel Business Agreements, and the implementation thereof;

(vi) the approval by the Court of the petition of SCIT for the approval of the Capital Reduction;

(vii) all consents, authorisations and approvals required under the Cayman Islands law to implement the Share Consolidation and the Capital Reduction and all other transactions contemplated hereunder being obtained;

(viii) the continued listing and trading in the shares of SCIT on the Stock Exchange (save for any temporary suspension not exceeding 30 consecutive trading days or such longer period as SCIT, SCI and Proper Glory may accept in writing), and the current listing of the Existing Shares or the listing of the New Shares (following completion of the Capital Reduction and the Share Consolidation) on the Stock Exchange not being withdrawn or suspended for a period exceeding 30 consecutive trading days or such longer period as SCIT, SCI and Proper Glory may accept in writing;

(ix) SCIT not being considered by the Stock Exchange as an applicant for new listing as a result of or in connection with the transactions contemplated in the Subscription Agreement or in the event that SCIT is treated as such, approval by the Listing Committee of the Stock Exchange of the new listing application of SCIT;

(x) (where applicable) the Novation Deeds, the Loan Assignment, the Disposal Agreement, the Management Agreement, the Joint Venture Deed and certain ancillary transactions contemplated in the Subscription Agreement, such as the granting of the Put Option by SCI to SCIT and the disposal of the Option Interest to SCI, being consented to by the SFC for the purpose of Rule 25 of the Takeovers Code;

(xi) all other necessary waivers, consents and approvals (if required) from the relevant governmental or regulatory authorities in Hong Kong, the Cayman Islands and the PRC required for the Subscription Agreement, the Novation Deeds, the Loan Assignment, the Travel Business Agreements, the Disposal Agreement, the Management Agreement, the Joint Venture Deed and the transactions contemplated in the Subscription Agreement being obtained;

(xii) the price per New Share being offered by Proper Glory pursuant to the requirement of the Takeovers Code not being higher than HK$0.022 provided that such maximum offer price of HK$0.022 shall not apply if Proper Glory or parties acting in concert with it has dealt in the Existing Shares and as a result of such dealing(s) the offer price has to be greater than HK$0.022 per New Share;

(xiii) no petition for the winding up of SCIT being presented or analogous proceedings being taken against SCIT, in each case on reasonable and substantial grounds, and no demand is made by any creditor for payment under any Guarantee;

(xiv) the acknowledgement or confirmation in writing to SCIT having been given by The Bank of East Asia, Limited and all such other creditors, if any, to whom the guarantee of approximately HK$174 million given by SCIT regarding the banking facilities granted to Firm Wise Investment Limited, an associate of SCIT, was granted that: (a) the relevant guarantee granted to it has been released; or (b) the underlying indebtedness secured by the relevant guarantee granted to it has been repaid in full; and

(xv) SCIT having obtained a legal opinion from its legal adviser (or the counsel acting for SCIT in Hong Kong High Court Action no. 3222 of 1999) regarding the merits of the case in respect of SCIT in the said court action, to the effect that SCIT has good grounds to resist the plaintiffs' action.

If any of the conditions are not fulfilled (unless waived by Proper Glory in respect of conditions (v), (vi), (xi), (xiv) and (xv) on or before the Long Stop Date, the Subscription Agreement and everything contained therein shall terminate and be null and void and of no further effect and no party shall have any liability to any other party, save in respect of any prior breaches of the terms of the Subscription Agreement which result in the conditions not being fulfilled.

Completion of the Subscription Agreement is not conditional upon the granting of the Whitewash Waiver. In the event that the Whitewash Waiver is not granted by the Executive or if granted, not being approved by the Independent Shareholders, Proper Glory will, in accordance with Rule 26 of the Takeovers Code, make an unconditional cash offer at HK$0.022 per New Share for all issued New Shares not already owned or agreed to be acquired by it or parties acting in concert with it. Presently, the Directors have not indicated their intention to accept or reject the offer since such cash offer has not yet been made.

Completion of the Subscription Agreement shall take place on the day falling 3 business days after the date on which Proper Glory being notified by SCIT the conditions precedent are fulfilled or waived.

3. **The Disposal Agreement**

(A) *Major terms*

Date:	22nd April, 2002
Vendor:	SCIT
Purchaser:	SCI
Assets sold:	The entire issued share capital of the Disposal Company and 49 per cent. of the issued share capital of the SI-IT Business Company
Consideration:	HK$239,000,000
Payment:	HK$238,000,000 of the total consideration will be set off against an equivalent part of the balance of the Shareholders' Loan and the remaining balance of HK$1,000,000 is to be paid by SCI in cashier's order or bankers' draft at completion of the Disposal Agreement.
Conditions:	(i) the passing of the necessary resolutions by the Independent Shareholders by way of a poll and the shareholders of SCI respectively approving the Disposal Agreement and the transactions contemplated thereunder; and (ii) the Subscription Agreement having become unconditional in all respects.
Completion of the Disposal Agreement:	Completion of the Disposal Agreement shall take place simultaneously with completion of the Subscription Agreement on the Completion Date.

(B) *Basis of consideration*

The consideration as set out in the Disposal Agreement was arrived at through arm's length negotiation between SCIT and SCI with reference to the pro forma adjusted net asset value of the Disposal Company (which was approximately HK$239.6 million) together with 49 per cent.

of the combined net deficiency in assets of the SI-IT Business Company (which was approximately HK$0.6 million) of approximately HK$239 million, based on the net asset value of the SCIT Group of approximately HK$26.5 million and adding the Shareholders' Loan of approximately HK$297 million as at 31st December, 2001 (since the Shareholder's Loan will not be disposed of) and the effect of the exclusion of 51 per cent. interests in SI-IT Business Company retained by the SCIT Group of approximately HK$0.6 million as contemplated in the Disposal Agreement (since the SI-IT Business Company had net deficiency in assets of approximately HK$1.2 million) and subtracting the deficit of approximately HK$85 million on revaluation of properties to be disposed of by the parties to the Disposal Agreement.

(C) *Information on the Disposal Company and the SI-IT Business Company*

The Disposal Company is an investment holding company and through its subsidiaries are engaged in the information and technology related businesses, implementation and marketing of software applications, property development and investment, and investments holding. Its investments include 49 per cent. equity interests in Four Seas Travel (BVI) Limited, Four Seas (BVI) Limited, Four Seas Corporate Management Limited, Hong Kong Four Seas Tours Limited, Gainfield Holdings Limited and Four Seas Corporate Services Limited, all of which are held by Full Sino Profits Limited, a wholly owned subsidiary of the Disposal Company, and are indirect subsidiaries of Fourseas.com Limited. They are engaged in the travel-related businesses. No separate valuation has been performed on these companies. As at 31st December, 2001, the unaudited combined net asset value of these travel-related business subsidiaries was in deficit of approximately HK$4.5 million. The SI-IT Business Company is an investment holding company and its major subsidiaries are two joint venture companies in the PRC, namely Chongqing South China Zenith Information Technology Co., Ltd. ("Zenith") and Nanjing South China Skytech Information Technology Co., Ltd. ("Skytech"). Zenith is principally engaged in the business of application software development, project management, website development, IT solutions outsourcing, system analysis and design, consultation, maintenance, and the provision of support services and security solutions. Skytech is principally engaged in system integration and the provision of customer relationship management solutions. No valuation has been performed on Zenith and Skytech. As at 31st December, 2001, the unaudited net asset value of Zenith and Skytech was approximately HK$200,000 in deficit and HK$1 million in deficit respectively. All the existing staff, assets and equipment for the running of the SI-IT Business will be retained by the SI-IT Business Company after completion of the Disposal Agreement.

Set out below is a list of properties held by the Disposal Company:

1. 30% interest of The Centrium, No. 60 Wydham Street, Central, Hong Kong.

2. Whole of First Floor and two lavatories (at rear of Staircases between 1st Floor and 2nd Floor), On Lok Yuen Building, Nos. 25, 27 & 27A Des Voeux Road Central, Hong Kong.

3. All Offices on Second Floor (including two lavatories), On Lok Yuen Building, No. 25, 27 & 27A Des Voeux Road Central, Central, Hong Kong.

4. Units A, B and C on 7th Floor and the three lavatories thereof, Century House, Nos. 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon.

5. Units A and B on 8th Floor and the two lavatories thereof, Century House, Nos. 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon.

6. Unit C on 8th Floor and the lavatory thereof, Century House, Nos. 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon.

7. Units B and C on 9th Floor and the two lavatories thereof, Century House, Nos. 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon.

8. The Second Floor and External Walls, Metropole Building, Nos 53-63 Peking Road and Nos. 12, 12A, 12B & 12C Hankow Road, Tsim Sha Tsui, Kowloon.

9. Units A and B of 4th Floor, McDonald's Building, Nos. 46-54 Yee Wo Street, Causeway Bay, Hong Kong.

10. Unit Nos. 1022 on 10th Floor, Nan Fung Centre, Nos. 264-298 Castle Peak Road and Nos. 64-98 Sai Lau Kok Road, Tsuen Wan, New Territories.

11. Flat A2 on 1st Floor, Carnarvon Mansion, Nos. 8-12E Carnarvon Road and Nos. 8A-8H, 8J & 8K Humphreys Avenue, Tsim Sha Tsui, Kowloon.

12. Unit Nos. 4, 5, 6, 7 and 8 on 3rd Floor, Houston Centre, No. 63 Mody Road, Tsim Sha Tsui, Kowloon.

13. Unit No. 78 on 2nd Floor, Houston Centre, No. 63 Mody Road, Tsim Sha Tsui, Kowloon.

14. Four Seas Jade Centre, Nos. 530, 532, 534 and 536 Canton Road, Yau Ma Tei, Kowloon.

15. Flat B1 on 5th Floor and Car Parking Space No. 18 on Ground Floor, Beverley Heights, No. 67 Beacon Hill Road, Kowloon Tong, Kowloon.

16. Flat No. 1211 on 12th Floor, Flat Nos. 1303, 1315 on 13th Floor, Flat Nos. 1513 and 1521 on 15th Floor, Flat Nos. 1603, 1622 on 16th Floor and Flat No. 2004 on 20th Floor, Bell House, Nos. 525 to 543 Nathan Road, Yau Ma Tei, Kowloon.

17. Workshops D1, E1 and F1 on 5th Floor, Hang Fung Industrial Building, Phase 1, No. 2G Hok Yuen Street, Hung Hom, Kowloon.

18. 2nd Floor, No. 10A Austin Avenue, Tsim Sha Tsui, Kowloon.

19. Unit 14 on 6th Floor, Nan Fung Commercial Centre, No. 19 Lam Lok Street, Kowloon Bay, Kowloon.

20. Flats A, B, C and D on 1st Floor, Fu Fung Building, Nos 5-7 Tsing Fung Street, North Point, Hong Kong.

21. 1st Floor of Block G, Kimberley Mansion, No. 15 Austin Avenue, Tsim Sha Tsui, Kowloon.

22. Unit A on Ground Floor also known as Storage A, Mai Luen Industrial Building, Nos. 23-31 Kung Yip Street, Kwai Chung, New Territories.

23. Units J and L on 2nd Floor, Private Car Parking Space Nos. G20 and G22 and Lorry Parking Space Nos. L3 and L4 on Ground Floor, Kaiser Estate 2nd Phase, Nos. 47-53 Man Yue Street, Hung Hom, Kowloon.

24. Ground Floor to 5th Floor (The Whole Block), Nos. 18-20 Ming Fung Street, Wong Tai Sin, Kowloon.

25. Unit C on 15th Floor, World Trade Plaza, Wusi Road, Fuzhou, Fujian Province, the PRC.

26. Grand Hotel Four Seas, Kai Cheung Da Dao, Danshui, Huiyang City, Guangdong Province, the PRC.

27. Site located at Qingdao National Shilaoren Tourist Area (known as Land Plot No. 1-3-3), Qingdao, Shandong Province, the PRC.

28. Site located at the south of Zhanjiangan Lu and west of Xujiamaidao Hotel, Qingdao, Shandong Province, the PRC.

29. Dongguan Lion City, Liaobu Zhen, Dongguan, Guangdong Province, the PRC.

30. 新華豪庭 (formerly named as “Charming Square”), Fahuazhen Lu, Land Lot No. 215, Changning District, Shanghai, the PRC.

A valuation report on the above properties is included in Appendix II to this circular.

The unaudited combined results for the year ended 31st December, 2001 of the Disposal Company and the SI-IT Business Company were net losses of approximately HK$102.2 million and approximately HK$1.2 million respectively. The unaudited combined results for the year ended 31st December, 2000 of the Disposal Company and the SI-IT Business Company were net losses of approximately HK$48.0 million and approximately HK$61,000 respectively.

4. **The Management Agreement**

Major terms

Date:	22nd April, 2002
Parties:	SCIT, the SI-IT Business Company and SCI
Services and duration:	SCI is appointed by the SI-IT Business Company as the manager to provide all management services which are customary and usual for the operation of similar type of businesses, i.e. information and technology related businesses, and that SCI shall consider appropriate for the proper conduct and operation of the SI-IT Business and all necessary advice and guidance in respect thereof to the SI-IT Business Company (and its subsidiaries from time to time) for a term of six years commencing from the Completion Date (the "Term") subject to early termination upon the completion of the sale and purchase of the Option Interest. SCI shall have the authority, in its sole and absolute discretion, to determine and pay and grant (on behalf of the SI-IT Business Company or its subsidiaries) the remuneration, benefits and other incentives, including the payment of any bonus (in cash, shares in the SI-IT Business Company or its subsidiaries or otherwise) or to grant any share options, to be payable or to be granted by the SI-IT Business Company or its subsidiaries to any staff employed in the SI-IT Business Company. However, no shares or options may be issued or granted within a period of 549 days after completion of the Subscription Agreement. The total number of shares to be issued shall be not more than 5% of the enlarged issued share capital of such company from time to time.

Management fee: In consideration for the provision of the management services by SCI during the Term, the SI-IT Business Company shall pay to SCI management fee in arrears in the sum of HK$2,000,000 for the first 549 days after the completion of the Subscription Agreement and thereafter to be increased annually at the rate equivalent to the increase in the Composite Consumer Price Index of the 12-month period plus an increase equivalent to 0.5 per cent. of the increase in the turnover over such 12-month period. The first management fee is payable on the day immediately succeeding the day falling 549 days after the Completion Date and is thereafter payable annually on the day immediately after the anniversary of such date. Such management fee of HK$2,000,000 for the first 549 days after the completion of the Subscription Agreement was arrived at among SCIT, the SI-IT Business Company and SCI with reference to the fees payable by SCIT to SCI Group for the last two financial years and the estimated level of activities to be provided in respect of business directorship, legal advisory services, company secretarial services, accounting and taxation services, human resources management, and marketing and promotional services to the SI-IT Business Company. A management fee of HK$4,000,000 was charged by SCI Group to the SCIT Group for each of the two years ended 31st December, 2001.

Finance:

(i) SCI unconditionally and irrevocably undertakes with SCIT and the SI-IT Business Company (for itself and on trust of all of its subsidiaries) that it is solely responsible (without recourse against SCIT, the SI-IT Business Company or any of their respective subsidiaries) for the provision of the normal working capital (after giving credit to the income and other payments received in respect of the SI-IT Business) for the operation of the SI-IT Business for a period of 549 days after the Completion Date.

(ii) For the period commencing from the expiration of 549 days from the Completion Date and ending on the date of termination of the Management Agreement, if requested by SCI, SCIT shall provide or procure the provision of funding support by way of loan to the SI-IT Business Company provided that the amount of funding support payable during each of the following periods shall not exceed the following amounts:

Period *(No. of days after Completion Date)*	**Amount** *(HK$)*
550 to 914	8,000,000
915 to 1,279	10,000,000
1,280 to 1,644	12,000,000
1,645 to 2,009	14,000,000
2,010	16,000,000

The above funding support has been agreed between the parties to ensure that the SI-IT Business Company will have sufficient financial resources to meet its operations.

There are no predetermined terms of such loans to the SI-IT Business Company except that SCIT has undertaken not to call for repayment of such loans during the term of the Management Agreement. It is the intention of SCI that it would only make request for funding support when the SI-IT Business Company requires financial support.

Default: If SCIT fails to provide the funding support or if the SI-IT Business Company shall fail to pay the management fees as provided above, SCIT undertakes to transfer or procure the transfer of the Option Interest to SCI upon receiving notice from SCI at a consideration of HK$5,500,000, if so requested by SCI, as liquidated damages (for itself and on trust for Fook Cheung) for such default.

Major warranties and undertakings:

(i) SCI shall (without recourse against SCIT or the SI-IT Business Company or any of their respective subsidiaries) be solely liable to and be responsible for all the Operating Losses of the SI-IT Business Company and its subsidiaries under its management in accordance with the terms of the Management Agreement incurred during the period of 549 days following the Completion Date;

(ii) SCI warrants and undertakes to SCIT and the SI-IT Business Company that none of the SI-IT Business Company nor any of its subsidiaries shall be wound up during the period of 549 days following the Completion Date; and

(iii) SCI undertakes to SCIT and the SI-IT Business Company that the turnover of the SI-IT Business Company arising from its ordinary activities and calculated in accordance with the Statements of Standard Accounting Practice and Accounting Guidelines or other accounting principles and standards from time to time issued by the Hong Kong Society of Accountants for each of the two consecutive six-month periods commencing from the Completion Date shall not be less than HK$10 million.

Conditions precedent:

(i) the passing of the necessary resolutions by the Independent Shareholders by way of a poll and shareholders of SCI, if required, approving the Management Agreement and the transactions contemplated thereunder; and

(ii) the Subscription Agreement having become unconditional in all respects.

Termination:

The Management Agreement shall terminate:

(i) upon the expiration of the Term;

(ii) if either of SCI or SCIT goes into liquidation or is subject to a winding up order or a receiver is appointed in respect of the whole or a material part of its assets; or

(iii) upon completion of the sale and purchase of the Option Interest in accordance with the terms of the Subscription Agreement or the Management Agreement.

5. **The Joint Venture Deed**

Upon completion of the Subscription Agreement and the Disposal Agreement, SCIT and Fook Cheung will hold 51 per cent. and 49 per cent. of the issued share capital of the SI-IT Business Company respectively. To regulate the operation and management of the SI-IT Business Company after completion of the Subscription Agreement and the Disposal Agreement, SCIT, SCI, Fook Cheung and the SI-IT Business Company have entered into the Joint Venture Deed.

Date:	22nd April, 2002
Parties:	SCIT, SCI, Fook Cheung and the SI-IT Business Company
Effective Date:	The Joint Venture Deed shall become effective from the completion of the Disposal Agreement.
Management of the SI-IT Business Company:	The business of the SI-IT Business Company and its subsidiaries shall be managed by the board of directors of the SI-IT Business Company which shall irrevocably delegate all its powers and authorities with respect to the business of the SI-IT Business Company and its subsidiaries to SCI for a term of six years commencing from the Completion Date (the "Term") subject to early termination upon completion of the sale and purchase of the Option Interest. The SI-IT Business Company shall appoint SCI to provide the management services to the SI-IT Business Company and its subsidiaries throughout the Term. The maximum number of directors of the SI-IT Business Company shall be five. SCIT and Fook Cheung can each appoint and remove up to three and two directors respectively. The quorum for meetings of the board of the SI-IT Business Company shall be four, of whom two shall be directors appointed by SCIT and two shall be directors appointed by Fook Cheung. Any questions arising at any meeting shall be decided by a majority of at least four out of five votes, out of the said four votes of which two shall be from directors appointed by SCIT and two shall be from directors appointed by Fook Cheung and in the case of equality of votes, the chairman shall not have a second or casting vote.
Further obligations of parties:	SCIT undertakes to the other parties to the Joint Venture Deed that it shall not exercise its rights as majority shareholder which shall in any way restrict or limit or impede the power and authority of SCI to provide the management services under the Management Agreement.

Transfer of shares in the SI-IT Business Company:	Any transfer of shares in the SI-IT Business Company by SCIT or Fook Cheung will be subject to the pre-emption right by the other shareholder under the Joint Venture Deed, save and except for any transfer of shares to a wholly-owned subsidiary of the ultimate holding company for the transferor shareholder or any transfer of shares pursuant to the transfer of the Option Interest in accordance with the Subscription Agreement or the Management Agreement.
Conflict with articles of associations:	In the case of inconsistency between the Joint Venture Deed and the articles of association of the SI-IT Business Company, the Joint Venture Deed shall prevail.

6. **Shareholding structure immediately before and after completion of the Subscription Agreement and the Disposal Agreement**

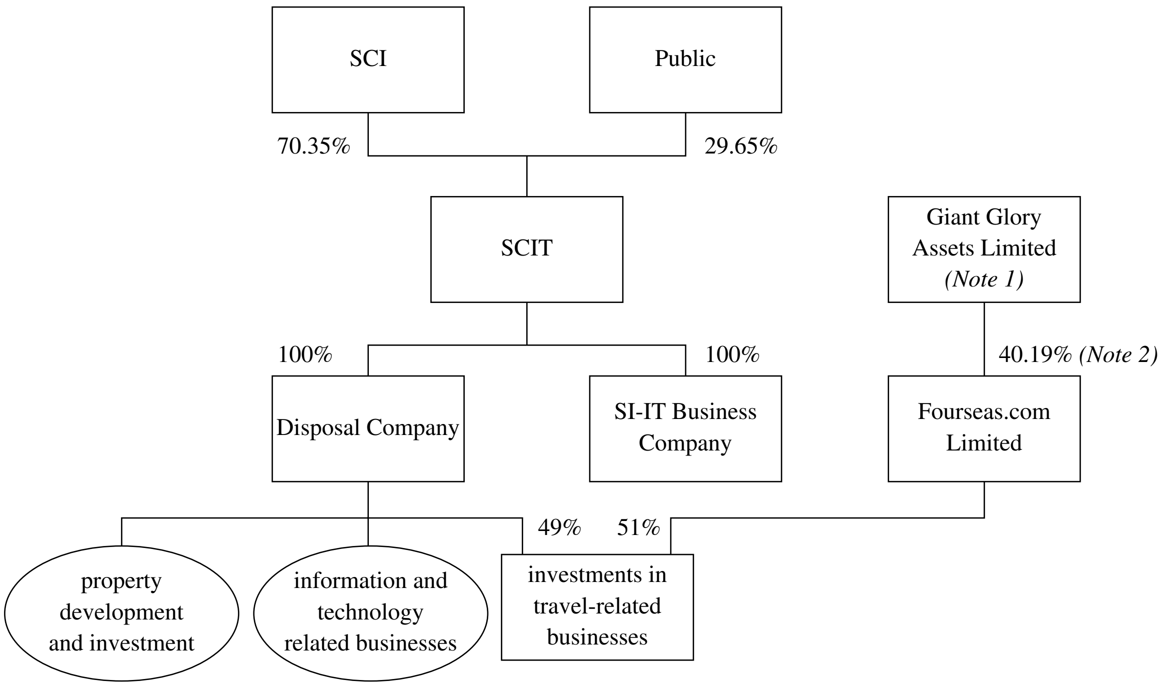
As at the Latest Practicable Date, there are a total of 680,529,805 Existing Shares in issue. The following table sets out the shareholding structure of SCIT before the Share Consolidation and the Financial Restructuring Proposal and immediately after completion of the Subscription Agreement:

Shareholders	**Before the Share Consolidation and the Financial Restructuring Proposal**		**Immediately after completion of the Subscription Agreement**	
	No. of Existing Shares	**Shareholding**	**No. of New Shares**	**Shareholding**
		(%)		*(%)*
Proper Glory	—	—	3,000,000,000	89.81
SCI through Onswin Limited and Grandwood Trading Limited	478,746,550	70.35	239,373,275	7.17
Public	201,783,255	29.65	100,891,627	3.02
	680,529,805	100.00	3,340,264,902	100.00

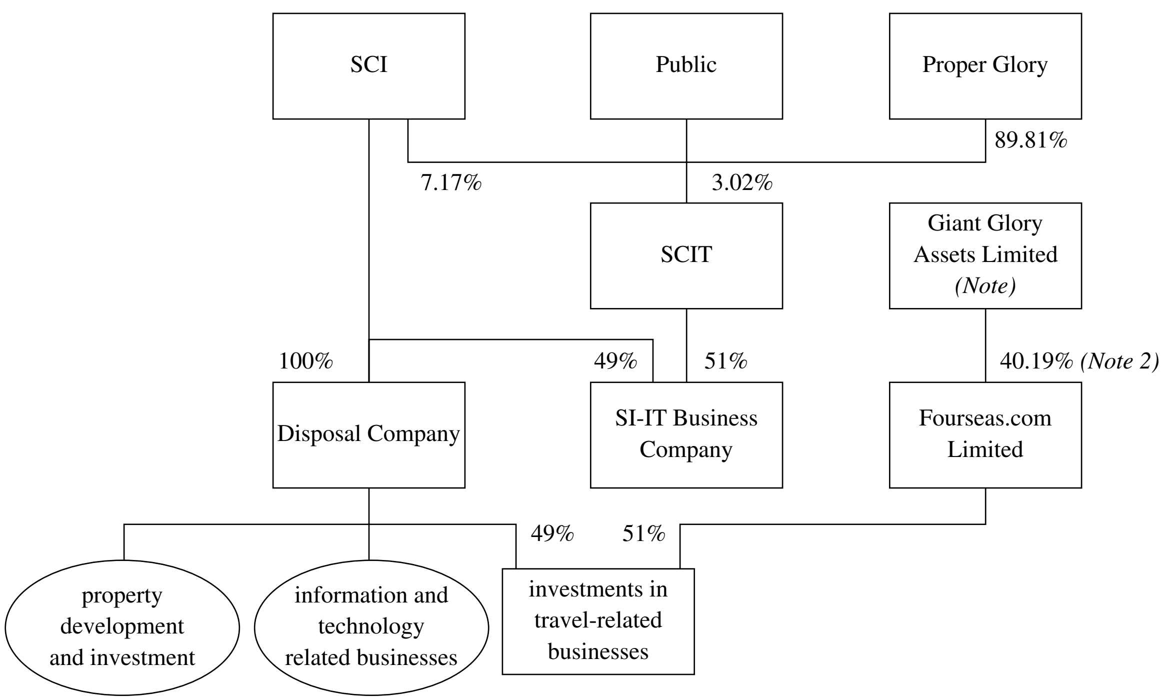
Prior to the signing of the Subscription Agreement, there were outstanding share options granted by SCIT to certain directors and employees of the SCIT Group which entitled the holders to subscribe for a total of 46,030,000 shares of HK$0.10 each in SCIT at the initial subscription prices of HK$0.51 to HK$1.28 per share (subject to adjustments). SCIT procured all holders of options to surrender all the outstanding share options. As at the Latest Practicable Date, there are no outstanding share options, warrants or securities convertible into Existing Shares.

Set out below is the shareholding structure between SCI, SCIT, Proper Glory, Disposal Company and SI-IT Business Company immediately before and after completion of the Subscription Agreement and the Disposal Agreement.

Before



After



Notes:

(1) Giant Glory Assets Limited is owned as to 40 per cent. by Mr. He Xue Chu, as to 24 per cent. by Worldton Investments Limited (a company owned as to 20 per cent. by Mr. Ku Wai Kwan, as to 50 per cent. by Mr. Lam Wai Tung, as to 15 per cent. by Mr. Zhang Peng and as to 15 per cent. by Mr. Ma Jia Ning) and as to 36 per cent. by Mr. Dai Zhi Kang, a director of Fourseas.com Limited. The directors of Giant Glory Assets Limited are Messrs. He Xue Chu, Ku Wai Kwan, Wong Hing Kwok, Zhou Teng and Dai Zhi Kang. Mr. He Xue Chu, Fortune Door Investment Limited (a company wholly owned by Mr. Ku Wai Kwan), Venture Link Assets Limited (a company wholly owned by Mr. Zhou Teng) and Mr. Wong Hing Kwok are shareholders of Proper Glory, holding 32 per cent., 28 per cent., 25 per cent. and 15 per cent. respectively in the issued share capital of Proper Glory.

(2) Pursuant to a placing agreement entered into by, amongst others, Fourseas.com Limited dated 24th May, 2002, the shareholding of Giant Glory Assets Limited in Fourseas.com Limited will be reduced to approximately 36.94 per cent. upon completion of the placing.

7. Effects of the Financial Restructuring Proposal

Upon completion of the Subscription Agreement and the Disposal Agreement, the principal business of the SCIT Group will be its 51 per cent. interest in the SI-IT Business Company. SI-IT Business Company is the intermediate holding company of two joint venture companies in the PRC whose principal activities are the provision of system integration and software development services. The unaudited combined turnover of the companies comprising the SI-IT Business for the year ended 31st December, 2001 was approximately HK$34 million.

The following statement of pro forma adjusted consolidated net tangible assets of SCIT Group is based on the audited consolidated net assets of the SCIT Group as at 31st December, 2001 and adjusted to reflect the financial effects of the Financial Restructuring Proposal:

		HK$'000
Audited consolidated net tangible assets of the SCIT Group as at 31st December, 2001		26,514
Less:	Deficit on revaluation of the SCIT Group's interests in investment properties, leasehold land and building, and land pending for development *(Note)*	(85,000)
	Further increase in the Shareholders' Loan to be set off by proceeds from transactions contemplated under the Subscription Agreement and the Disposal Agreement	(6,000)
	Disposal of the Sale Interest under the Disposal Agreement	(239,000)
Add:	Gross proceeds from the issue of the Subscription Shares pursuant to Financial Restructuring Proposal	66,000
	Consideration for the disposal of the Sale Interest	239,000
Pro forma adjusted consolidated net tangible assets of the SCIT Group upon completion of the Financial Restructuring Proposal		1,514
Consolidated net tangible asset value per share of the SCIT Group as at 31st December, 2001, before completion of the Financial Restructuring Proposal and based on 680,529,805 Existing Shares in issue		3.896 cents
Pro forma adjusted consolidated net tangible asset value per share of the SCIT Group upon completion of the Financial Restructuring Proposal, based on 3,340,264,902 New Shares in issue		0.045 cents

Note: The deficit on revaluation of property interests is based on the valuation carried out by the independent property valuers, FPDSavills (Hong Kong) Limited and BMI Appraisals Limited, chartered surveyors on the SCIT Group's interests in investment properties, leasehold land and buildings and land pending for development as at 31st March, 2002. The report is set out in Appendix II to this circular.

It is expected that a loss of approximately HK$85 million will result from the implementation of the Financial Restructuring Proposal, being the deficit on revaluation of the SCIT Group's interests in investment properties, leasehold land and building, and land pending for development.

In accordance with the terms of the Subscription Agreement, the Put Option was granted by SCI to SCIT, which is exercisable by SCIT within 549 days from the Completion Date (or such longer period as may be agreed between SCI and SCIT). The Put Option gives SCIT the right to require SCI to acquire the 51 per cent. interest in the SI-IT Business Company beneficially owned by SCIT following completion of the Disposal Agreement at a consideration of HK$5,500,000. In addition, contemporaneously at completion of the Subscription Agreement and the Disposal Agreement, the Novation Deeds will be entered into pursuant to which SCIT shall novate to SCI (or its nominee) all SCIT's rights and obligations arising under the Travel Business Agreements in so far as and to the extent that those rights and obligations are still outstanding as at completion of the Subscription Agreement and the Disposal Agreement, including but not limited to the put option granted by SCIT to Fourseas.com Limited to the intent that the put option will be enforceable against SCI. Accordingly, Fourseas.com Limited shall have the right to require SCI, in place of SCIT, to acquire the remaining 51 per cent. interest in six subsidiaries of Fourseas.com Limited which are engaged in the travel and related businesses.

8. Implications of the Financial Restructuring Proposal under the Listing Rules and the Takeovers Code

(A) *The Subscription Agreement*

The terms of the Subscription Agreement were agreed upon after arm's length negotiation amongst Proper Glory, SCI and SCIT after taking into account the current financial position and business situation of SCIT. As at the Latest Practicable Date, SCI, through its subsidiaries, Onswin Limited and Grandwood Trading Limited, holds 478,746,550 Existing Shares representing approximately 70.35 per cent. of the existing issued share capital of SCIT. Pursuant to paragraph 19 of the listing agreement entered into between SCIT and the Stock Exchange and due to the fact that the granting of the Put Option under the Subscription Agreement constitutes a special deal, the Subscription Agreement is subject to the approval of the Independent Shareholders by way of a poll at the First Extraordinary General Meeting.

Both the granting of the Put Option by SCI to SCIT and the disposal of the Option Interest to SCI pursuant to the exercise of the Put Option constitute connected transactions for SCIT in accordance with the Listing Rules. As such, both the granting and the exercise of the Put Option are subject to the separate approvals of the Independent Shareholders by poll at general meetings. Should the Put Option be exercised or not exercised, separate announcements will be made by SCI and SCIT and an extraordinary general meeting will be held for obtaining the approval by the Independent Shareholders. In addition, the granting of the Put Option is considered a special deal under Rule 25 of the Takeovers Code. The Executive will normally consent to the special deal provided that the independent financial adviser advising the Independent Board Committee states in its opinion that the terms of the transaction are fair and reasonable and the transaction is approved by the Independent Shareholders by way of a poll.

In the event that the Put Option is exercised, SCIT may or may not have sufficient level of operations or tangible assets of sufficient value to warrant the continual listing of the shares of SCIT on the Stock Exchange in accordance with paragraph 38 of the listing agreement entered into between SCIT and the Stock Exchange. Trading of shares in SCIT may be suspended and the delisting procedures stipulated in Practice Note 17 of the Listing Rules may be applied on SCIT. Proper Glory and its directors and the new directors to be appointed to the board of SCIT are fully aware of such requirements under the Listing Rules.

The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by SCIT. The Stock Exchange has indicated that it has the discretion to require SCIT to issue a circular to the shareholders of SCIT irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of SCIT. The Stock Exchange also has the power to aggregate a series of transactions of SCIT and any such transactions may result in SCIT being treated as if it were a new listing applicant.

Contemporaneously at completion of the Subscription Agreement and the Disposal Agreement, the Novation Deeds will be entered into pursuant to which, among others, the put option granted by SCIT to Fourseas.com Limited will be novated to SCI such that the put option will be enforceable against SCI.

SCI intends to procure that SCIT be released from the Guarantees either at completion of the Subscription Agreement or on or before the date falling 60 days after the Completion Date (the “First Release Date”) or within 30 days after the First Release Date (the “Second Release Date”) by providing replacement guarantees and other forms of security to the banks in whose favour the Guarantees were granted, or repaying the borrowings secured by the Guarantees. If SCIT shall not be able to release and discharge the Guarantees fully upon completion of the Subscription Agreement, the provision of the Guarantees by SCIT, within either the First Release Date or the Second Release Date as allowed under the Subscription Agreement, will constitute the Non-exempted Connected Transaction. In this respect, it is subject to the announcement requirement and the approval of the Independent Shareholders at the First Extraordinary General Meeting.

As the use of part of the proceeds from the Subscription Agreement and part of the proceeds from the exercise of Put Option apply only for repayment of Shareholders’ Loan and will not be extended to all shareholders of SCIT, the consent of the Executive is required under Rule 25 of the Takeovers Code. In this respect, the directors of SCIT have confirmed that SCIT will use all reasonable endeavours to seek the acknowledgement or confirmation in writing from its existing creditors (other than normal day-to-day trade creditors) (as of the date of the Announcement) that the Consideration, the sale price for the Disposal Company and the proceeds from the exercise of the Put Option will not be applied by SCIT towards repayment of its loans to them.

As at the Latest Practicable Date, letters were received from three, out of six, creditor banks confirming their agreement to the arrangement of the transactions contemplated under the Financial Restructuring Proposal and the release of an aggregate of aproximately HK$102.8 million of the maximum aggregate amount of the Guarantees of HK$125.3 million upon completion of all the necessary documentation.

(B) *The Disposal Agreement*

Upon completion of the Disposal Agreement, SCIT will be principally engaged in the SI-IT Business through its holding of 51% interest in the SI-IT Business Company.

SCI, at present, through its subsidiary, holds approximately 70.35 per cent. of the existing issued share capital of SCIT. The Disposal Agreement constitutes a major and connected transaction for SCIT under the Listing Rules, and is therefore subject to the approval of the Independent Shareholders at the First Extraordinary General Meeting.

As the terms of the Disposal Agreement relating to the disposal of the entire interest of the Disposal Company and 49 per cent. interest in the SI-IT Business Company will not be extended to all shareholders of SCIT, the Disposal Agreement is considered a special deal under Rule 25 of the Takeovers Code and therefore requires the consent of the Executive. The Executive will normally consent to the special deal provided that the independent financial adviser advising the Independent Board Committee states in its opinion that the terms of the transaction are fair and reasonable and the transaction is approved by the Independent Shareholders by way of a poll.

(C) *The Management Agreement*

The SI-IT Business Company is a direct wholly-owned subsidiaries of SCIT, and SCI, as at the Latest Practicable Date, through its subsidiaries, Onswin Limited and Grandwood Trading Limited, holds approximately 70.35 per cent. of the existing issued share capital of SCIT. Upon completion of the Subscription Agreement and the Disposal Agreement, SCI will hold 49 per cent. of the issued share capital of, and become a substantial shareholder of, the SI-IT Business Company, a then non wholly-owned subsidiary of SCIT. As such, the Management Agreement will constitute an ongoing connected transaction for SCIT in accordance with the Listing Rules, and will be subject to the disclosure requirements pursuant to Rule 14.25(1) of the Listing Rules.

The Joint Venture Deed is entered into for regulating the operation and management of the SI-IT Business Company and its subsidiaries with effect from completion of the Disposal Agreement, taking into account the Disposal Agreement and the Management Agreement.

As the terms of the Management Agreement will not be extended to all shareholders of SCIT, the Management Agreement and the Joint Venture Deed are considered to be special deals under Rule 25 of the Takeovers Code and therefore requires the consents of the Executive. The Executive will normally consent to the special deal provided that the independent financial adviser advising the Independent Board Committee states in its opinion that the terms of the transaction are fair and reasonable and the transaction is approved by the Independent Shareholders by way of a poll.

In the event that the financial assistance to be granted by SCIT to the SI-IT Business Company is not in proportion to its equity interests in such companies or otherwise not upon normal commercial terms, appropriate disclosure and independent shareholders' approval requirements will be complied with as stipulated under Chapter 14 of the Listing Rules.

In the event that SCI exercises its authority to grant any share options of the SI-IT Business Company or its subsidiaries to any staff employed in the SI-IT Business Company or its subsidiaries in accordance with the Management Agreement, appropriate disclosure and shareholders' approval requirements will be complied with as stipulated under Chapter 17 of the Listing Rules.

In the event that SCIT breaches its obligation by failing to provide the funding support or the SI-IT Business Company shall fail to pay the management fees pursuant to the Management Agreement, SCIT is obliged to transfer the Option Interest to SCI. Similarly, after the execution of the Novation Deeds, if Fourseas.com Limited breaches its obligation by failing to provide the funding support or its subsidiaries shall fail to pay the management fees pursuant to a management agreement dated 18th June, 2001, Fourseas.com Limited is obliged to transfer its 51% equity interests in its travel-related businesses to SCI. In any of such events, appropriate disclosure and independent shareholders' approval requirements will be complied with by SCIT and Fourseas.com Limited, as appropriate, as stipulated under Chapter 14 of the Listing Rules.

REASONS FOR THE FINANCIAL RESTRUCTURING PROPOSAL

The Subscription Agreement

As stated in the latest annual report of SCIT for the year ended 31st December, 2001, the shareholders' fund decreased from approximately HK$121,247,000 for the year ended 31st December, 2000 to approximately HK$26,514,000 for the year ended 31st December, 2001. In light of the tightened financial position, the directors of SCIT consider that the subscription of Subscription Shares will reduce part of the Shareholders' Loan of approximately HK$320 million as at the Latest Practicable Date by HK$65 million and increase the share capital and share premium of SCIT by HK$60 million and HK$6 million respectively.

As Proper Glory does not have any prior experience in the running of the information and technology related businesses, Proper Glory considers that the Put Option would give SCIT flexibility if its management decides that they do not wish to continue to run the SI-IT Business. However, Proper Glory is fully aware that if the Put Option is exercised, SCIT may not have a sufficient level of operations to warrant the continued listing of its shares on the Stock Exchange. As disclosed in the section headed "Intention of Proper Glory regarding the SCIT Group" in the letter from Proper Glory, it is the intention of Proper Glory (i) to continue to carry on the SI-IT Business following completion of the Subscription Agreement and the Disposal Agreement; and (b) to explore suitable business opportunities and new investments for SCIT after completion of the Subscription Agreement and the Disposal Agreement.

The Disposal Agreement

The directors of SCIT consider that the properties of SCIT comprise relatively illiquid real properties located in Hong Kong and the PRC. In view of the sustained losses during the past two financial years amounting to an aggregate of approximately HK$150,907,000 which was mainly attributable to the finance costs and losses from the operations of the SCIT Group, SCIT has been experiencing tightened financial position in carrying the properties which are substantially mortgaged to banks, and meeting the existing liability obligations to the banks. As at the Latest Practicable Date, the aggregate amount of mortgaged borrowings of the SCIT Group was approximately HK$121 million. The gross rental income for the years ended 31st December, 1999, 2000 and 2001 were approximately HK$981,000, HK$675,000 and HK$2,200,000 respectively whereas the finance cost for the corresponding periods were approximately HK$16,663,000, HK$25,983,000 and HK$23,203,000 respectively.

Meanwhile, SCIT had a net cash outflow from the operating activities and payment of finance costs. Presently, the daily operation and repayment of bank borrowings of SCIT are substantially and sometimes wholly financed by SCI. The disposal of the entire interest of the Disposal Company and 49% interests in the SI-IT Business Company will help to alleviate worsening financial situation of SCIT in respect of loans repayment. Upon completion of the Disposal Agreement, SCIT will be able to reduce the annual finance costs substantially, based on the current prime lending rate, from approximately HK$22 million to less than HK$0.1 million. The bank borrowings and the Shareholders' Loan will be reduced from approximately HK$121 million to approximately HK$2 million and from approximately HK$255 million as at the Latest Practicable Date (assuming completion of the Subscription Agreement) to approximately HK$17 million respectively upon such completion. It is expected that the remaining liabilities of SCIT upon completion of the Disposal Agreement will consist mainly of the trade creditors of subsidiaries of the SI-IT Business Company and the remaining balance of the Shareholders' Loan (which, based on the balance of approximately HK$320 million at the Latest Practicable Date, will amount to approximately HK$17 million). Any balance of the Shareholders' Loan which exceeds HK$5 million after completion of the Subscription Agreement and the Disposal Agreement will be waived. For illustration purpose, if the balance of the Shareholders' Loan were HK$320 million as above, the amount to be waived would be approximately HK$12 million.

The Management Agreement

Upon completion of the Subscription Agreement and the Disposal Agreement, the principal activities of the SCIT Group will be the SI-IT Business and the existing executive directors of SCIT will resign and new directors are proposed to be appointed to the board of SCIT in accordance with Rules 7 and 26.4 of the Takeovers Code. As the proposed executive directors of SCIT (details of their biographies have been set out in the section headed "Change of board composition of SCIT" in the letter from Proper Glory in this circular) have no direct experience in managing the SI-IT Business, SCIT and the SI-IT Business Company have entered into the Management Agreement with SCI in order to ascertain a smooth operation of the SI-IT Business Company before and after completion of the Subscription Agreement and the Disposal Agreement.

CONNECTED TRANSACTIONS

Upon completion of the Financial Restructuring Proposal, SCI will indirectly hold approximately 7.17 per cent. interest in SCIT and will indirectly hold 49 per cent. in the SI-IT Business Company while SCIT will directly hold 51 per cent. in the SI-IT Business Company. As such, any transactions entered into between SCIT and the SI-IT Business Company, between SCI and SCIT, and between SCI and the SI-IT Business Company, thereafter will constitute connected transactions for the purpose of the Listing Rules.

Non-exempted Connected Transaction

	Transaction	Parties	Amount involved
1.	Provision of the Guarantees (the "Non-exempted Connected Transaction") in connection with certain of the Disposal Company group's properties within 60 days or, in certain cases, 90 days from the Completion Date	SCIT (as the Guarantor), certain banks (as beneficiaries), and the Disposal Company and its subsidiaries (as debtors)	Up to a maximum of HK$125.3 million in aggregate (with an actual aggregate amount of borrowings of approximately HK$121 million as at the Latest Practicable Date)

Note: The Guarantees have been given by SCIT at nil consideration in respect of certain bank borrowings provided by five creditor banks to certain group companies of the Disposal Company. All these bank borrowings are provided under normal commercial terms and are secured by certain properties of the Disposal Company. Interest rates range from 1.75 per cent below to 1.0 per cent. above the prevailing prime lending rate and 2.0 per cent. above HIBOR. For the year ended 31st December, 2001, interest on bank overdrafts and bank loans amounted to approximately HK$3.2 million.

Pursuant to Rule 14.26 of the Listing Rules, the provision of the Guarantees (or the Non-exempted Connected Transactions) is subject to the announcement requirement and the approval of the Independent Shareholders at the First Extraordinary General Meeting.

As at the Latest Practicable Date, letters were received from three creditor banks confirming their agreement on the release of an aggregate of approximately HK$102.8 million of the Guarantees upon completion of all the necessary documentation. The Directors do not foresee any difficult in obtaining the consents for release of the remaining balance of the Guarantees from the other creditor banks. However, in the event all the release cannot be obtained within 90 days after the Completion Date, a separate approval by the Shareholders for the provision of guarantees to the Disposal Company and its subsidiaries will be required under the Listing Rules.

Ongoing Connected Transactions

The transactions contemplated under the Management Agreement entered into between SCIT, the SI-IT Business Company and SCI and certain other transactions which will be engaged into on an ongoing basis between SCIT and the SI-IT Business Company, and between SCI and SCIT to facilitate the Financial Restructuring Proposal will constitute Ongoing Connected Transactions. Below are the Ongoing Connected Transactions that will arise upon completion of the Financial Restructuring Proposal:

<table>
<tr><th></th><th>Transaction</th><th>Parties</th><th>Amount involved</th></tr>
<tr><td>1.</td><td>Provision of management services (as detailed under the sub-section headed “The Management Agreement” in this letter)</td><td>SCI (as manager) and SCIT (as appointor)</td><td>Pursuant to the Management Agreement, a fee of HK$2,000,000 for the first 549 days after the Completion Date is payable, and such amount is to be increased thereafter annually at the rate equivalent to the increase in the Composite Consumer Price Index of the previous 12-month period plus an increase equivalent to 0.5 per cent. of the increase in the trading turnover of the SI-IT Business Company over such 12-month period.</td></tr>
<tr><td>2.</td><td>Provision of funding support</td><td>SCIT (as lender) and SI-IT Business Company (as borrower)</td><td>Pursuant to the Management Agreement, SCIT shall provide the funding support to the SI-IT Business Company provided that the amount of funding support payable during each of the following periods shall not exceed the following amounts:
<table>
<tr><th>Period
(No. of days after Completion Date)</th><th>Amount
(HK$)</th></tr>
<tr><td>550 to 914</td><td>8,000,000</td></tr>
<tr><td>915 to 1,279</td><td>10,000,000</td></tr>
<tr><td>1,280 to 1,644</td><td>12,000,000</td></tr>
<tr><td>1,645 to 2,009</td><td>14,000,000</td></tr>
<tr><td>2,010</td><td>16,000,000</td></tr>
</table></td></tr>
<tr><td>3.</td><td>Provision of working capital</td><td>SCI (as lender) and SI-IT Business Company (as borrower)</td><td>Pursuant to the Management Agreement, SCI is solely responsible (without recourse against SCIT or SI-IT Business Company) for the normal working capital for the SI-IT Business Company for a period of 549 days after the Completion Date.</td></tr>
</table>

Since the value of the consideration paid for the transaction numbered 1 above is less than HK$10,000,000 on an annualised basis in each respective year, the transaction is accordingly subject to the disclosure requirements pursuant to Rule 14.25(1) of the Listing Rules. Although the transactions numbered 2 and 3 are regarded as connected transactions, pursuant to Rule 14.25(2) of the Listing Rules, the transaction numbered 2 is only subject to disclosure in the annual report and accounts of SCIT provided that the funding support is provided on normal commercial terms and in proportion to the shareholding; and pursuant to Rule 14.24(8) of the Listing Rules, the transaction numbered 3 is not normally subject to any disclosure or shareholders' approval requirements provided that this funding support is granted upon normal commercial terms and no security is given by the SI-IT Business Company to SCI.

SCIT will comply with the revelant provisions of Chapter 14 of the Listing Rules in respect of the above Ongoing Connected Transactions numbered 1 to 3.

PROPOSED CHANGE OF BOARD COMPOSITION OF SCIT

It is intended that all the existing executive directors of SCIT, including Mr. Ng Hung Sang, Robert, Mr. Cheung Wing Hung, Vincent, Ms. Cheung Choi Ngor, Christina, Mr. Richard Howard Gorges and Ms. Ng Yuk Mui, Jessica will resign as soon as possible after completion of the Subscription Agreement and as permitted under Rule 7 of the Takeovers Code. It is intended by Proper Glory that the existing independent non-executive directors of SCIT will also resign after completion of the Subscription Agreement and as permitted under Rule 7 of the Takeovers Code, and that upon such resignation, new independent non-executive directors will be nominated to the board of SCIT in compliance with the requirements under Rule 3.10 of the Listing Rules. Further details of the proposed new directors are set out in the letter from Proper Glory contained in this circular.

CHANGE OF COMPANY NAME

In order to reflect the new ownership of SCIT, it has proposed that the name of SCIT would be changed to Guorun Holdings Limited (國潤控股有限公司). The proposed change of name is conditional upon:

(i) the passing of a special resolution by the Shareholders at the Second Extraordinary General Meeting to approve the change of name;

(ii) the completion of the Financial Restructuring Proposal; and

(iii) the approval by the Registrar of Companies in the Cayman Islands and a certified resolution by the Shareholders of the change of name being filed with the Registrar of Companies in the Cayman Islands.

The change of name will not affect any of the rights of the Shareholders. All existing share certificates in issue bearing the present name of SCIT will, after the change of name becoming effective, continue to be evidence of title to the New Shares. Please refer to the paragraphs headed "Share Consolidation and trading arrangements" in this letter for details of arrangement on free exchange of certificates for the Existing Shares with certificates for the New Shares.

SCIT will make a further announcement if and when the proposed name change becomes effective.

GENERAL MANDATES TO ISSUE AND REPURCHASE NEW SHARES

At the First Extraordinary General Meeting, resolutions will be proposed that, conditional upon the completion of the Financial Restructuring Proposal, the general mandate granted to the Directors to exercise the power of SCIT to allot, issue and repurchase Shares pursuant to an ordinary resolution passed by the Shareholders at the annual general meeting of SCIT held on 31st May, 2002 will be revoked. The following ordinary resolutions will be proposed to the First Extraordinary General Meeting for the approval of the Shareholders to grant new general mandates to the Directors to:

(i) allot and issue New Shares otherwise than pursuant to the Subscription Agreement and/or the share option scheme adopted by SCIT on 31st May, 2002 not exceeding 20 per cent. of the agreggate nominal amount of the share capital of SCIT in issue as at the date of the passing of such resolution as enlarged by the issue of the Subscription Shares (the "General Mandate");

(ii) to repurchase securities not exceeding 10 per cent. of the aggregate nominal amount of the issued share capital of SCIT as at the date of the passing of such resolution as enlarged by the Subscription Shares (the "Repurchase Mandate"); and

(iii) subject to the availability of unissued share capital and conditional upon the passing of the resolutions mentioned above, the aggregate nominal amount of the shares which are repurchased by SCIT pursuant to and in accordance with resolution mentioned in (ii) above shall be added to the aggregate nominal amount of the share capital of SCIT that may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the Directors pursuant to and in accordance with the resolution mentioned (i) above (the "Extension Mandate").

The authority conferred on the Directors by the General Mandate, the Repurchase Mandate and the Extension Mandate would continue in force until the earliest of (i) the conclusion of the next annual general meeting of SCIT; (ii) the expiration of the period within which the next annual general meeting of SCIT is required by law or the articles of association of SCIT to be held; and (iii) its revocation or variation by ordinary resolution of the Shareholders in general meeting.

An explanatory statement to provide Shareholders with all the information reasonably necessary for them to make an informed decision in relation to the proposed resolution in relation to the Repurchase Mandate as required by the Listing Rules concerning the regulation of repurchases by companies of their own securities on the Stock Exchange is set out in the Appendix III to this circular.

EXTRAORDINARY GENERAL MEETINGS

Save for each of Mr. Ng Hung Sang Robert, Mr. Richard Howard Gorges, and Ms. Cheung Choi Ngor, Christina's indirect interest in SCIT through their respective shareholdings in South China Holdings Limited (which is the ultimate controlling shareholder of SCIT), none of the Directors holds any Existing Shares as at the Latest Practicable Date and in any event, the Directors will abstain from voting at the First Extraordinary General Meeting in respect of ordinary resolutions numbered 2, 3 and 4.

Set out on pages 194 to 201 of this circular is a notice convening the First Extraordinary General Meeting which will be held at 10:00 a.m. on 24th June, 2002 at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong at which resolutions will be proposed to approve, among other things, the transactions contemplated under the Financial Restructuring Proposal, the grant of the Whitewash Waiver, the Non-exempted Connected Transaction, the General Mandate, the Repurchase Mandate and the Extension Mandate.

The resolutions numbered 2, 3 and 4 to approve the Financial Restructuring Proposal, the Novation Deeds and the Loan Assignment, and the Whitewash Waiver will be approved by a vote taken by way of a poll of the Independent Shareholders at the Extraordinary General Meeting where ordinary resolutions numbered 1, 6, 7 and 8 will be voted upon by all the Shareholders. In accordance with Rule 25 and Note 1 of the notes to the dispensations from Rule 26 of the Takeovers Code, SCI and parties acting in concert with any of SCI, Proper Glory and their associates will abstain from voting on ordinary resolutions numbered 2, 3 and 4 as set out in the notice of the First Extraordinary General Meeting on pages 194 to 201 of this circular. In respect of ordinary resolution numbered 5, SCI and its associates, being connected persons to the Non-exempted Connected Transaction, will abstain from voting.

Set out on pages 202 and 203 of this circular is a notice convening the Second Extraordinary General Meeting which will be held at 10:00 a.m. on 2nd July, 2002 at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong at which a special resolution will be proposed to approve the change of name of SCIT. The resolution will be voted upon by all the Shareholders.

The forms of proxy for use at the First Extraordinary General Meeting and the Second Extraordinary General Meeting are enclosed with this circular. Whether or not you intend to attend the meetings, you are requested to complete the accompanying forms of proxy in accordance with the instructions printed thereon and return it as soon as possible to SCIT's branch share registrars in Hong Kong, Standard Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, and in any event not less than 48 hours before the time appointed for the holding of the respective meeting or any adjourned meetings of the respective meeting. Completion and return of forms of proxy will not preclude you from attending and voting in person at the First Extraordinary General Meeting and the Second Extraordinary General Meeting or any adjourned meetings of the respective meeting should you so desire.

LISTING AND DEALINGS

The Subscription Shares, when allotted and issued, shall rank pari passu with the New Shares in issue immediately after the Share Consolidation becoming effective.

Application will be made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the New Shares in issue upon the Share Consolidation becoming effective and the Subscription Shares to be issued pursuant to the Subscription Agreement. No part of the share capital of SCIT is listed or dealt in on any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

Subject to the granting of the listing of, and permission to deal in, the New Shares on the Stock Exchange, the New Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the New Shares on the Stock Exchange or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 53 and 54 which contains its recommendation to the Independent Shareholders in the terms of the Financial Restructuring Proposal, the grant of the Whitewash Waiver and the Non-exempted Connected Transaction and the letter of advice from KGI Asia and Baron Capital, the text of which is set out on pages 55 to 87 of this circular containing their advice to the Independent Board Committee. The Shareholders are advised to read the aforesaid letters before deciding as to how to vote at the First Extraordinary General Meeting.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Ng Hung Sang, Robert
Chairman

Proper Glory Holding Inc.

(incorporated in the British Virgin Islands with limited liability)

Directors:
He Xuechu
Ku Wai Kwan
Zhou Teng
Wong Hing Kwok

Registered office:
Trident Trust Company (B.V.I.) Limited
Trident Chambers
P.O. Box 146
Road Town
Tortola
British Virgin Islands

7th June, 2002

To the shareholders of South China Information and Technology Limited

Dear Sir or Madam,

PROPOSED FINANCIAL RESTRUCTURING OF SOUTH CHINA INFORMATION AND TECHNOLOGY LIMITED COMPRISING SHARE CONSOLIDATION, SUBSCRIPTION OF SUBSCRIPTION SHARES, DISPOSAL AGREEMENT, NOVATION DEEDS, MANAGEMENT AGREEMENT AND JOINT VENTURE DEED (MAJOR AND CONNECTED TRANSACTIONS) WHITEWASH WAIVER, SPECIAL DEAL CONSENTS, PROVISION OF GUARANTEES, GENERAL MANDATE TO ISSUE NEW SHARES, GENERAL MANDATE TO REPURCHASE NEW SHARES AND CHANGE OF COMPANY NAME

INTRODUCTION

On 2nd May, 2002, the boards of directors of Proper Glory, SCI and SCIT jointly announced that the following agreements were entered into on 22nd April, 2002 to effect the Financial Restructuring Proposal of the SCIT Group:

(i) the Subscription Agreement amongst Proper Glory, SCI and SCIT for, among others, (a) the conditional subscription of the Subscription Shares (representing approximately 89.81 per cent. of the issued share capital of SCIT upon the Share Consolidation becoming effective and enlarged by the issue of the Subscription Shares) at a price of HK$0.022 per Subscription Share by Proper Glory for a total consideration of HK$66,000,000; (b) the conditional grant by SCI to SCIT of the right to require SCI to acquire the remaining 51 per cent. interest in the SI-IT Business Company (after completion of the Disposal Agreement) for a consideration of HK$5,500,000; and (c) the entering into of the Loan Assignment and the Novation Deeds;

(ii) the Disposal Agreement between SCIT and SCI for the conditional disposal of the entire issued capital of the Disposal Company and 49 per cent. of the issued share capital of the SI-IT Business Company by SCIT to SCI for a total consideration of HK$239,000,000; and

(iii) the Management Agreement amongst SCIT, SI-IT Business Company and SCI for the conditional appointment of SCI as the manager to provide management services to SI-IT Business Company and its subsidiaries for a term of six years commencing from the Completion Date.

In order to facilitate the Financial Restructuring Proposal, the board of directors of SCIT also proposes to effect the Share Consolidation prior to the completion of the Subscription Agreement.

As at the Latest Practicable Date, SCI, through its subsidiaries, Onswin Limited and Grandwood Trading Limited, holds 478,746,550 Existing Shares representing approximately 70.35 per cent. of the existing issued share capital of SCIT. SI-IT Business Company is a direct wholly-owned subsidiary of SCIT. SI-IT Business Company, through its subsidiaries, carries on the information and technology related businesses in Nanjing and Chongqing, the PRC.

Details of these agreements are set out in the letter from the Board contained in this circular (the "Circular") to the Shareholders, of which this letter forms part. Defined terms and expressions used herein shall have the same meanings as those in the Circular, unless stated otherwise.

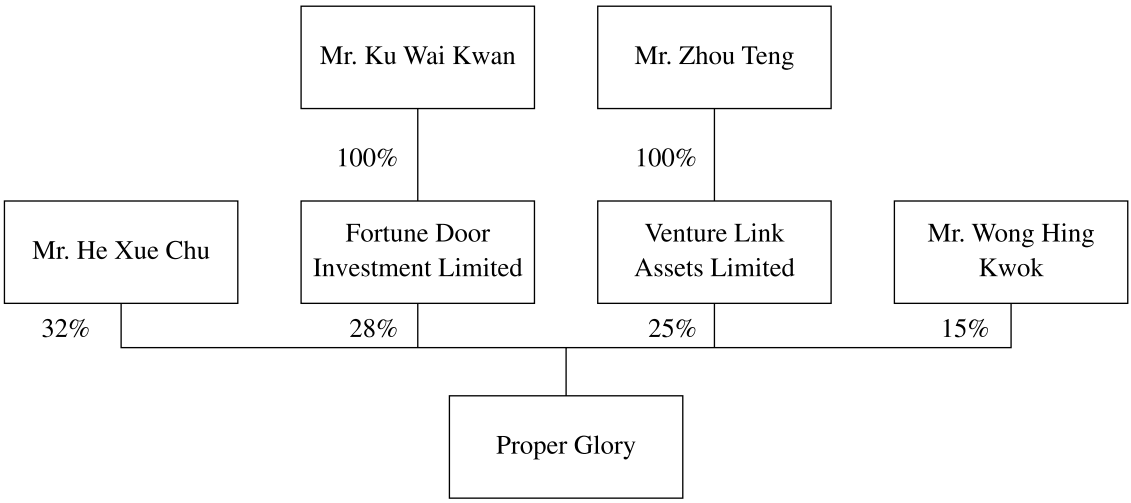
The purpose of this letter is to provide the Shareholders with additional information on, among other things, Proper Glory, the intention of Proper Glory regarding the SCIT Group upon completion of the Subscription Agreement and the Disposal Agreement, and Management Agreement, the Whitewash Waiver, the Executive's consents on special deals and the proposed change of name of SCIT.

Shareholders should also read through carefully the letter from the Board, the letter from the Independent Board Committee and the letter of advice from KGI Asia and Baron Capital contained in the Circular and other information set out in the appendices to the Circular.

INFORMATION OF PROPER GLORY

Proper Glory is a private company incorporated in the British Virgin Islands with limited liability on 21st March, 2002. The issued share capital of Proper Glory is beneficially owned as to 32 per cent. by Mr. He Xue Chu, as to 28 per cent. by Fortune Door Investment Limited, as to 25 per cent. by Venture Link Assets Limited and as to 15 per cent. by Wong Hing Kwok. Fortune Door Investment Limited is a private company incorporated in the British Virgin Islands with limited liability on 20th March, 2002 and the entire issued capital of which is beneficially owned by Mr. Ku Wai Kwan. Venture Link Assets Limited is a private company incorporated in the British Virgin Islands with limited liability on 2nd May, 2001 and the entire issued capital of which is beneficially owned by Mr. Zhou Teng.

The shareholding structure of Proper Glory is set out below:



Save for the fact that (i) Mr. He Xue Chu, Mr. Ku Wai Kwan, Mr. Wong Hing Kwok and Mr. Zhou Teng are the directors of Fourseas.com Limited and certain of its subsidiaries in which SCIT currently has 49 per cent. interest, and (ii) Giant Glory Assets Limited, a company owned as to 40 per cent. by Mr. He Xue Chu, as to 36 per cent. by a director of Fourseas.com Limited and as to 24 per cent. by Worldton Investments Limited (a company owned as to 20 per cent. by Mr. Ku Wai Kwan), is the owner of approximately 40.2 per cent. interest in Fourseas.com Limited, Proper Glory, its shareholders or as the case may be, the ultimate beneficial owners of the corporate shareholders, and its directors are parties independent of and not connected or acting in concert with the respective directors, substantial shareholders or chief executives of either of SCIT and SCI, and their respective subsidiaries and associates (as defined in the Listing Rules) or parties acting in concert with any of them.

None of Proper Glory and its ultimate beneficial owners and parties acting in concert with it owns or controls (directly or indirectly) any class of securities of SCIT and SCI as at the Latest Practicable Date. None of Proper Glory and its ultimate beneficial owners and parties acting in concert with any of them have dealt in any Existing Shares in the period commencing six months prior to the date of the Subscription Agreement or to the Latest Practicable Date.

Proper Glory is an investment holding company and was incorporated on 21st March, 2002. Since its incorporation, Proper Glory has not carried out any business other than the entering into of certain agreements relating to the Financial Restructuring Proposal. As at the Latest Practicable Date, apart from certain cash equivalent assets which are designated for the financing of its commitments in relation to the Financial Restructuring Proposal, Proper Glory does not have any other material assets.

Brief details of the curriculum vitae of Mr. He Xue Chu, Mr. Ku Wai Kwan, Mr. Zhou Teng and Mr. Wong Hing Kwok are set out in the paragraph headed "Change of board composition of SCIT" below.

INTENTION OF PROPER GLORY REGARDING THE SCIT GROUP

Business of the SCIT Group

The SCIT Group is principally engaged in information and technology related businesses, implementation and marketing of software applications, property development and investment. SCIT also holds investments in 49 per cent. equity interests in certain subsidiaries of Fourseas.com Limited which are engaged in the travel related businesses and are managed by SCIT. The audited consolidated losses before tax and after tax of SCIT for the year ended 31st December, 2000 were approximately HK$49,139,000 and approximately HK$49,139,000 respectively and its audited consolidated loss before tax and after tax for the year ended 31st December, 1999 were approximately HK$53,705,000 and approximately HK$52,671,000 respectively. SCIT recorded an audited consolidated net asset value of approximately HK$121,247,000 and approximately HK$171,841,000 as at 31st December, 2000 and 31st December, 1999 respectively. For the year ended 31st December, 2001, the audited consolidated loss before tax and after tax was approximately HK$105,970,000 and HK$106,076,000 respectively. As at 31st December, 2001, the audited consolidated net asset value was approximately HK$26.5 million.

For the two years ended 31st December, 2000 and 2001, the unaudited combined net asset value of the SI-IT Business Company and its subsidiaries was in deficit of approximately HK$73,000 and in deficit of approximately HK$1.2 million respectively. The unaudited combined results of the SI-IT Business Company and its subsidiaries for the years ended 31st December, 2000 and 2001 were net losses of HK$61,000 and HK$1.2 million respectively. For the years ended 31st December, 2000 and 2001, the unaudited combined net asset value of the subsidaries of Fourseas.com Limited which are engaged in the travel related businesses was in deficit of approximately HK$70.4 million and in deficit of approximately HK$4.5 million respectively. The unaudited combined results of these companies for the years ended 31st December, 2000 and 2001 were net losses of approximately HK$17.4 million and HK$2.6 million respectively.

Upon completion of the Subscription Agreement and the Disposal Agreement, the principal business of the SCIT Group will be its 51 per cent. interest in the SI-IT Business Company. SI-IT Business Company is the intermediate holding company of two joint venture companies in the PRC whose principal activities are the provision of system integration and software development services. The SI-IT Business Company will, upon completion of the Disposal Agreement, remain as a subsidiary of SCIT and be accounted for as a subsidiary of SCIT. The pro forma unaudited net asset value of SCIT upon completion of the Subscription Agreement and the Disposal Agreement will be approximately HK$1.5 million, which comprises total assets of approximately HK$18 million and total liabilities of approximately HK$16.5 million. Its pro forma unaudited combined turnover for the year ended 31st December, 2001 arrived at as if the Disposal Agreement had been completed on 31st December, 2000, was approximately HK$34 million.

It is the intention of Proper Glory to continue to carry on the SI-IT Business following completion of the Subscription Agreement and the Disposal Agreement. As Proper Glory and its directors have no direct experience in managing the SI-IT Business, SCIT and the SI-IT Business Company have entered into the Management Agreement with SCI, pursuant to which the SI-IT Business Company will appoint SCI as the manager to provide management services for the SI-IT Business following completion of the Subscription Agreement and the Disposal Agreement. Under the Management Agreement, SCI has undertaken that the turnover of the SI-IT Business Company arising from its ordinary activities for each of the two consecutive six-month periods commencing from the date of completion of the Subscription Agreement will not be less than HK$10 million. Having taken into account of the pro forma turnover, assets and liabilities of SCIT upon completion of the Subscription Agreement and the Disposal Agreement, and the aforementioned level of turnover undertaken by SCI, the directors of SCIT are of the view that SCIT will have a sufficient level of operations and tangible assets of sufficient value to warrant the continued listing of its shares on the Stock Exchange.

Save as the proposed change of the composition of the board of Directors as disclosed in the section headed "Change of board composition of SCIT" in this letter, Proper Glory has no plans to dismiss any of the 150 existing staff of the SCIT Group. The directors of Proper Glory also confirm that Proper Glory has no intention to inject assets or re-deploy the assets of the SCIT Group following completion of the Subscription Agreement save for the transactions contemplated under the Financial Restructuring Proposal.

The proposed directors to the board of SCIT (nominated by Proper Glory and such appointment will take effect as soon as possible after completion of the Subscription Agreement and as permitted under the Takeovers Code) have confirmed that they have no intention to procure SCIT for the exercise of the Put Option upon completion of the Subscription Agreement. Proper Glory and its directors and the new directors to be appointed to the board of SCIT are fully aware of the requirements in relation to sufficient operations of a listed company on the Stock Exchange under Paragraph 38 of the listing agreement entered into between SCIT and the Stock Exchange. In the event that the Put Option is exercised or SCIT otherwise disposes of the Option Interest, SCIT may not have a sufficient level of operations or tangible assets of sufficient value to warrant the continued listing of its shares on the Stock Exchange. Trading of shares in SCIT may be suspended and the delisting procedures stipulated in Practice Note 17 of the Listing Rules may be applied to SCIT. Proper Glory intends to explore suitable business opportunities and new investments for SCIT after completion of the Subscription Agreement and the Disposal Agreement. However, no such investment or businesses have been identified at this stage. Any further investments or business that might be conducted by the SCIT Group will be subject to the constitutional documents, relevant regulatory requirements and approval of shareholders of SCIT where so required and will be in full compliance with the relevant Listing Rules.

Change of board composition of SCIT

It is intended that all the existing executive directors of SCIT, including Mr. Ng Hung Sang, Robert, Mr. Cheung Wing Hung, Vincent, Ms. Cheung Choi Ngor, Christina, Mr. Richard Howard Gorges and Ms. Ng Yuk Mui, Jessica will resign as soon as possible after completion of the Subscription Agreement and as permitted under Rule 7 of the Takeovers Code. It is intended by Proper Glory that the existing independent non-executive directors of SCIT will also resign after completion of the Subscription Agreement and as permitted under Rule 7 of the Takeovers Code, and that upon such resignation, new independent non-executive directors will be nominated to the board of SCIT in compliance with the requirements under Rule 3.10 of the Listing Rules.

Proper Glory intends to nominate the following persons as executive directors to the board of SCIT and such appointment will take effect as soon as possible after completion of the Subscription Agreement and as permitted under Rule 26.4 of the Takeovers Code. Brief particulars of the proposed executive directors are as follows:

Mr. He Xue Chu, aged 39, is a director of Proper Glory. He is also an executive director of Foursea.com Limited, the shares of which are listed on the main board of the Stock Exchange. Mr. He graduated from Anhui Finance and Trade College in the PRC with a Bachelor's Degree in economics and has over 18 years of experience in accounting and financial management. Between 1983 and 1985, Mr. He worked with the Domestic Trade Ministry of the PRC. Soon after that, he joined China Resources Co., Ltd in Beijing as a deputy manager in the finance department. In 1989, Mr. He was transferred to China Resources (Holdings) Co., Ltd ("CRHC") in Hong Kong as a deputy general manager in the finance department, responsible for financial management. In 1997, Mr. He set up his own business, principally engaged in the investments in trading, property development and other strategic investments in the PRC.

Mr. Ku Wai Kwan, aged 40, is a director of Proper Glory and an executive director of Fourseas.com Limited, the shares of which are listed on the main board of the Stock Exchange. He is also an executive director of a private company involved in the businesses of international trades, property development, electronic software and Internet networking in the PRC. Mr. Ku has more than 10 years' experience in these fields. He graduated from the Beijing University of Physical Education in the PRC with a Bachelor's Degree in education and was a lecturer of Nan Chang University between 1984 and 1990.

Mr. Zhou Teng, aged 38, is a director of Proper Glory and an executive director of Fourseas.com Limited, the shares of which are listed on the main board of the Stock Exchange. Mr. Zhou graduated from Hunan Finance and Economy College in the PRC with a Bachelor's Degree in economics. Between 1985 and 1997, Mr. Zhou was a key management of two private companies which were engaged in the manufacturing of fur and leather products in Macau and the PRC respectively. In 1997, Mr. Zhou set up his own business, which is principally engaged in food catering, trading and investment activities. He has more than 18 years experience in these fields.

Mr. Wong Hing Kwok, aged 57, is a director of Proper Glory and an executive director of Fourseas.com Limited, the shares of which are listed on the main board of the Stock Exchange. He is also a director of a private company engaged in investment activities in the PRC and a general manager of a private property development company in the PRC. Prior to that, he was a director of a private company involved in the development of large-scale residential property project in Shanghai. Mr. Wong has over 20 years of experience in operation and management of electronics, property and construction business. Mr. Wong graduated from Nancheng Aviation Institute in the PRC.

Listing status of SCIT

Proper Glory intends that SCIT will remain listed on the Stock Exchange upon completion of the Subscription Agreement. However, upon completion of the Subscription Agreement, less than 25 per cent. of the New Shares in issue will be held in public hands. Proper Glory and its directors and the new directors to be appointed to the board of SCIT will apply to the Stock Exchange for a waiver from strict compliance with Rule 8.08 of the Listing Rules and have jointly and severally undertaken to the Stock Exchange that they will take appropriate steps as soon as possible upon completion of the Subscription Agreement to ensure that not less than 25 per cent. of the New Shares in issue will be held by the public. It is the intention of Proper Glory to place down its shareholding interest in SCIT to independent third parties not connected with any director, chief executive or substantial shareholder of SCIT or any of its subsidiaries or their respective associates (as defined in the Listing Rules) within one month following completion of the Subscription Agreement. However, no firm arrangements have been made at present. **If the Stock Exchange believes that (i) a false market exists or may exist in the trading of the New Shares; or (ii) there are too few New Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the New Shares on the Stock Exchange. Accordingly, Shareholders and the public should exercise caution when dealing in the shares of SCIT.**

As mentioned in the paragraph headed "Business of the SCIT Group" under the section headed "Intention of Proper Glory regarding the SCIT Group" above, the directors of SCIT are of the view that SCIT will have a sufficient level of operations and tangible assets of sufficient value to warrant the continued listing of its shares on the Stock Exchange upon the completion of the Subscription Agreement and the Disposal Agreement. In the event that the Put Option is exercised or SCIT otherwise disposes of the Option Interest, SCIT may not have a sufficient level of operations or tangible assets of sufficient value to warrant the continued listing of its shares on the Stock Exchange. Trading of shares in SCIT may be suspended and the delisting procedures stipulated in Practice Note 17 of the Listing Rules may be applied on SCIT. Proper Glory intends to explore suitable business opportunities and new investments for SCIT after completion of the Subscription Agreement and the Disposal Agreement. However, no such investment or businesses have been identified at this stage.

The Stock Exchange will also closely monitor all future acquisitions or disposals of assets by SCIT. The Stock Exchange has indicated that it has the discretion to require SCIT to issue a circular to the shareholders of SCIT irrespective of the size of any proposed transactions, particularly when such proposed transactions represent a departure from the principal activities of SCIT. The Stock Exchange also has the power to aggregate a series of transactions of SCIT and any such transactions may result in SCIT being treated as if it were a new listing applicant.

WHITEWASH WAIVER

Upon completion of the Subscription Agreement, Proper Glory will hold approximately 89.81 per cent. of the issued share capital of SCIT (upon the Share Consolidation becoming effective and enlarged by the issue of the Subscription Shares). Proper Glory has applied to the Executive for the Whitewash Waiver from compliance with such requirement pursuant to Note 1 to the Notes on Dispensations from Rule 26 of the Takeovers Code. If the Whitewash Waver is granted, it will be subject to, among other things, the approval by the Shareholders other than those who are involved in, or interested in, the Financial Restructuring Proposal, being shareholders other than SCI, parties acting in concert with it and their respective associates (as defined in the Listing Rules) by way of a poll at the First Extraordinary General Meeting.

After obtaining the Whitewash Waiver, Proper Glory will hold approximately 89.81 per cent. in the issued share capital of SCIT and may thereafter increase its shareholding in SCIT without incurring any further obligation under Rule 26 of the Takeovers Code to make a general offer in cash therefor.

However, in the event that the Whitewash Waiver is not granted by the Executive, Proper Glory will, in accordance with Rule 26 of the Takeovers Code, make an unconditional cash offer at HK$0.022 per New Share for all issued New Shares not already owned or agreed to be acquired by it or parties acting in concert with it. Completion of the Subscription Agreement is not conditional upon the granting of the Whitewash Waiver, but the general offer will be conditional upon completion of the Subscription Agreement taking place. CEF Capital are satisfied that there are sufficient financial resources available to Proper Glory to complete the Subscription Agreement and to satisfy full acceptance of such cash offer.

In addition, Proper Glory has applied to the Executive for consents in respect of the Novation Deeds, the Loan Assignment, the Disposal Agreement, the Management Agreement, the Joint Venture Deed and the ancillary transactions contemplated in the Subscription Agreement, such as the grant and exercise of the Put Option and the disposal of the Option Interest to SCI, which may constitute special deals under Rule 25 of the Takeovers Code requiring the Executive's consents and the Executive has indicated that such consents will be granted subject to the independent financial adviser opining that the transactions are fair and reasonable and the approval by the Shareholders other than those who are involved in, or interested in, the Financial Restructuring Proposal, being shareholders other than SCI, parties acting in concert with it and their respective associates (as defined in the Listing Rules) by way of a poll at the First Extraordinary General Meeting. Completion of the Subscription Agreement is conditional upon the granting by the Executive of such consents.

CHANGE OF COMPANY NAME

In order to reflect the new ownership of SCIT, it has been proposed that the name of SCIT would be changed to Guorun Holdings Limited (國潤控股有限公司). The proposed change of name is conditional upon:

(i) the passing of a special resolution by the Shareholders at the Second Extraordinary General Meeting to approve the change of name;

(ii) the completion of the Financial Restructuring Proposal; and

(iii) the approval by the Registrar of Companies in the Cayman Islands and a certified resolution by the Shareholders of the change of name being filed with the Registrar of Companies in the Cayman Islands.

The change of name will not affect any of the rights of the Shareholders. All existing share certificates in issue bearing the present name of SCIT will, after the change of name becoming effective, continue to be evidence of title to the New Shares. There will be arrangement for free exchange of existing share certificates, details of which are set out in the letter from the Board contained in the Circular.

FURTHER INFORMATION

The directors of Proper Glory reiterate that Shareholders should, in conjunction with this letter, read through carefully the letter from the Board, the letter from the Independent Board Committee and the letter of advice from KGI Asia and Baron Capital contained in the Circular and other information set out in the appendices to the Circular.

Yours faithfully,
For and on behalf of
Proper Glory Holding Inc.
He Xuechu
Director

South China Information and Technology Limited

(incorporated in the Cayman Islands with limited liability)

28th Floor, Bank of China Tower
1 Garden Road
Central
Hong Kong

7th June, 2002

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED FINANCIAL RESTRUCTURING OF SOUTH CHINA INFORMATION AND TECHNOLOGY LIMITED COMPRISING SHARE CONSOLIDATION, SUBSCRIPTION OF SUBSCRIPTION SHARES, DISPOSAL AGREEMENT, NOVATION DEEDS, MANAGEMENT AGREEMENT AND JOINT VENTURE DEED (MAJOR AND CONNECTED TRANSACTIONS) WHITEWASH WAIVER, SPECIAL DEAL CONSENTS, PROVISION OF GUARANTEES, GENERAL MANDATE TO ISSUE NEW SHARES, GENERAL MANDATE TO REPURCHASE NEW SHARES AND CHANGE OF COMPANY NAME

We refer to the circular to the Shareholders dated 7th June, 2002 jointly issued by SCIT and Proper Glory (the "Circular") of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider the terms of the Financial Restructuring Proposal which involves (i) the Share Consolidation; (ii) the Subscription Agreement; (iii) the Disposal Agreement; (iv) the Management Agreement; (v) the Joint Venture Deed; and (vi) the Novation Deeds; the grant of the Whitewash Waiver and the Non-exempted Connected Transaction. KGI Asia and Baron Capital have been appointed as the independent financial advisers to advise us in this respect. Details of their recommendations and principal factors taken into consideration in arriving at their recommendations are set out in the letter of advice from independent financial advisers on pages 55 to 87 of the Circular.

Your attention is drawn to (i) the letter from the Board as set out on pages 10 to 43 of the Circular; (ii) the letter of advice from independent financial advisers containing their advice to us together with the principal factors taken into consideration as set out on pages 55 to 87 of the Circular; and (iii) the additional information set out in the appendices to the Circular.

RECOMMENDATIONS

Having taken into account the terms of the Financial Restructuring Proposal and the advice from KGI Asia and Baron Capital, we consider that the terms of the Financial Restructuring Proposal which involves (i) the Share Consolidation; (ii) the Subscription Agreement; (iii) the Disposal Agreement; (iv) the Management Agreement; (v) the Joint Venture Deed and (vi) the Novation Deeds; the grant of the Whitewash Waiver and the Non-exempted Connected Transaction are fair and reasonable so far as the Independent Shareholders as a whole are concerned. Accordingly, we recommend the Independent Shareholders to vote at the First Extraordinary General Meeting in favour of the resolutions numbered 1 to 5 set out in the notice of First Extraordinary General Meeting to approve the Financial Restructuring Proposal and the transactions contemplated thereunder (including the special deals), the grant of the Whitewash Waiver and the Non-exempted Connected Transaction.

Yours faithfully,
For and on behalf of
Independent Board Committee
Tse Wong Siu Yin, Elizabeth **Yeung Chik Yin**
Independent non-executive Directors

The following is the text of a letter of advice received from KGI Asia and Baron Capital to the Independent Board Committee in respect of the Financial Restructuring Proposal (including the special deals), the grant of the Whitewash Waiver and the Non-exempted Connected Transaction, prepared for inclusion in the circular of South China Information and Technology Limited dated 7 June 2002.

KGI Asia Limited
27th Floor, Asia Pacific Finance Tower
Citibank Plaza
3 Garden Road
Central, Hong Kong

Baron Capital Limited
Room 3106, 31st Floor
Alexandra House
16-20 Chater Road
Central, Hong Kong

7 June 2002

To the Independent Board Committee of
South China Information and Technology Limited

Dear Sirs,

PROPOSED FINANCIAL RESTRUCTURING OF SOUTH CHINA INFORMATION AND TECHNOLOGY LIMITED COMPRISING SHARE CONSOLIDATION, SUBSCRIPTION OF SUBSCRIPTION SHARES, DISPOSAL AGREEMENT, NOVATION DEEDS, MANAGEMENT AGREEMENT AND JOINT VENTURE DEED (MAJOR AND CONNECTED TRANSACTIONS) WHITEWASH WAIVER, SPECIAL DEAL CONSENTS AND PROVISION OF GUARANTEES

We refer to our engagement to advise the Independent Board Committee in respect of the terms of the Financial Restructuring Proposal (including the special deals) which involves (i) the Share Consolidation, (ii) the Subscription Agreement including the Put Option, Novation Deeds and Loan Assignment, (iii) the Disposal Agreement, (iv) the Management Agreement, (v) the Joint Venture Deed, the granting of the Whitewash Waiver and the Non-exempted Connected Transaction, details of which are contained in the circular dated 7 June 2002 to the Shareholders (the "Circular") of which this letter forms part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

As discussed in the "Letter from the Board" in the Circular, Mr. Ng Hung Sang, Robert, Mr. Cheung Wing Hung, Vincent, Ms. Cheung Choi Ngor, Christina, Mr. Richard Howard Gorges and Ms. Ng Yuk Mui, Jessica were nominated as executive Directors by SCI and are therefore not considered independent to advise the Independent Shareholders in respect of the Financial Restructuring Proposal (including the special deals), the granting of the Whitewash Waiver and the Non-exempted Connected Transaction. The Independent Board Committee, comprising Ms. Tse Wong Siu Yin, Elizabeth ("Ms. Tse") and Mr. Yeung Chik Kin ("Mr. Yeung"), the independent non-executive Directors, has been appointed to give advice to the Independent Shareholders. We have reviewed the letters provided by each of the two independent non-executive Directors, namely Ms. Tse and Mr. Yeung, to the SFC for the purpose of confirming their independence from SCIT, Proper Glory Holdings Inc., Mr. He Xue Chu, Mr. Ku Wai Kwan, Mr. Zhou Teng, Mr. Wong Hing Kwok, Fortune Door Investment Limited, Venture Link Assets, South China Industries Limited and parties acting in concert with them. Based on the said confirmations, we are satisfied that both Ms. Tse and Mr. Yeung are independent of SCIT, Proper Glory Holdings Inc., Mr. He Xue Chu, Mr. Ku Wai Kwan, Mr. Zhou Teng, Mr. Wong Hing Kwok, Fortune Door Investment Limited, Venture Link Assets, South China Industries Limited and parties acting in concert with them and are therefore suitable for making recommendations to the Independent Shareholders in respect of the Financial Restructuring Proposal (including the special deals), the grant of the Whitewash Waiver and the Non-exempted Connected Transaction.

In formulating our recommendation, we have relied on the accuracy of the information and representations contained in the Circular, which have been provided by the Directors and have assumed all information and representations made or referred to in the Circular were true at the time they were made and continued to be true at the date of the Circular. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been advised by the Directors that no material facts have been omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the SCIT Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Financial Restructuring Proposal, the granting of the Whitewash Waiver and the Non-exempted Connected Transaction, we have considered the following principal factors and reasons:

Background

The SCIT Group has two major streams of businesses, namely information and technology business and property investments and development business, which attributed approximately 97% and 3% of the total turnover in 2001 respectively (2000: approximately 94% and 6% respectively). As disclosed in the annual report of 2001, turnover attributable from information and technology businesses increased from approximately HK$60 million or 94% of the total turnover in 2000 to approximately HK$109 million or 97% of the total turnover in 2001 and resulted overall growth in total turnover by 77% over last year. Turnover attributable from property investment and development business declined from approximately HK$3.6 million or 6% of the total turnover in 2000 to approximately HK$3.5 million or 3% of the total turnover in 2001.

The overall business of the SCIT Group has been loss-making for over five years. For the year ended 31 December 2001, SCIT recorded an audited consolidated net loss attributable to Shareholders of approximately HK$102.8 million compared to a net loss of approximately HK$48.1 million for the year ended 31 December 2000. The increase in net loss of the Company was mainly due to rising operating expenses of approximately HK$54.5 million in 2001 compared to approximately HK$36.3 million in 2000, provisions for impairment in the value of investments and property projects and goodwill of approximately HK$17.4 million in 2001 compared to HK$14.6 million in 2000, and a provision against advances to an associate of approximately HK$28.5 million in 2001 compared to nil in 2000. SCIT recorded an audited net asset value of approximately HK$26.5 million as at 31 December 2001, down from approximately HK$121.2 million at 31 December 2000. After taken into account of revaluation deficit on investment properties of approximately HK$85 million as at 31 March 2002, SCIT shall have recorded an adjusted net deficit of approximately HK$58.5 million as at 31 December 2001.

The total debts rose by about 35% from about HK$311.4 million in 2000 to about HK$419.5 million in 2001. But owing to lower interest rates last year, the finance costs dropped by about 11% to about HK$23.2 million in 2001. As a result, finance costs amounted to about 295% and about 97% of gross profits for the years ended 31 December 2000 and 2001 respectively, while the gearing ratio, represented by total debts to shareholders funds, rose from about 257% as at 31 December 2000 to about 1,583% as at 31 December 2001. Upon completion of the Financial Restructuring Proposal, SCIT shall have approximately HK$5 million balance of Shareholders' Loan and 2 million bank borrowings, substantially reduced from approximately HK$320 million of Shareholders' Loan and approximately HK$121 bank borrowings as at the Latest Practicable Date. Other liabilities of SCIT upon completion of the Financial Restructuring Proposal will reduce to approximately HK$9 million which mainly comprised of payables to trade and other creditors from approximately HK$66 million as at the Latest Practicable Date.

The Directors believe that the Subscription Agreement and the Disposal Agreement would together reduce the existing indebtedness and the finance costs of the SCIT Group, thereby improving its financial position. Pursuant to the Subscription Agreement and the Disposal Agreement, HK$65 million out of the gross proceeds of HK$66 million and HK$238 million out of the gross proceeds of HK$239 million respectively will be utilised for repayment of Shareholders' Loan and about HK$119 million out of HK$121 million in relation to bank debt would be taken up by SCI. Upon completion of the Disposal Agreement, SCIT will be able to reduce the annual finance costs by approximately HK$21.7 million (based on the current Hong Kong prime lending rate of 5.125%), representing a reduction of over 90% from the finance costs of approximately HK$23.2 million for the year ended 31 December 2001. The Directors further believe that by inviting Proper Glory as a new controlling Shareholder through the Subscription Agreement, the capital base of the SCIT Group would also be enhanced.

Upon completion of the Subscription Agreement and the Disposal Agreement, the principal business of the SCIT Group will be its 51% interest in the SI-IT Business Company. The SI-IT Business Company is an investment holding company and its major subsidiaries are two joint venture companies in the PRC, namely Chongqing South China Zenith Information Technology Co., Ltd. ("Zenith") and Nanjing South China Skytech Information Technology Co., Ltd. ("Skytech"). Zenith is principally engaged in the business of application software development, project management, website development, IT solutions outsourcing, system analysis and design, consultation, maintenance and the provision of support services and security solutions. Skytech is principally engaged in system integration and the provision of customer relationship management solutions. No valuation has been performed on Zenith and Skytech. As at 31st December, 2001, the unaudited net asset value of Zenith and Skytech was approximately HK$200,000 in deficit and HK$1 million in deficit respectively. The Financial Restructuring Proposal allows the Group to focus its resources on the development of SI-IT Business Company or any other potential business plan which may be identified by Proper Glory. In addition, with a broad base of business and management experience and strong business connection in the PRC, the beneficial shareholders of Proper Glory and the proposed directors may bring a new momentum and inspiration to the SCIT Group in the future.

The SI-IT Business Company will, upon completion of the Disposal Agreement, remain as a subsidiary of SCIT and be accounted for as a subsidiary of SCIT. The pro forma unaudited net asset value of SCIT Group upon completion of the Subscription Agreement and the Disposal Agreement will be approximately HK$1.5 million.

As Proper Glory does not have direct experience in running the system integration and software development related business, we concur with the Directors' view that the Management Agreement with SCI, the Put Option under the Subscription Agreement and the Joint Venture Deed would provide the SCIT Group with the necessary management requirements for the continuous and smooth operations of the SI-IT Business Company upon completion of the Subscription Agreement and the Disposal Agreement.

Upon completion of the Subscription Agreement, Proper Glory will hold approximately 89.81% of the enlarged issued share capital of the SCIT (upon the Capital Reorganisation and the Share Consolidation becoming effective and enlarged by the Subscription Shares). Proper Glory has applied to the Executive for the Whitewash Waiver pursuant to Note 1 of Notes on Dispensations from Rule 26 of the Takeovers Code. In the event that the Whitewash Waiver is not granted by the Executive or if granted, not being approved by the Independent Shareholders voting by way of a poll, Proper Glory will, in accordance with Rule 26 of the Takeovers Code, make an unconditional cash offer at HK$0.022 per New Share for all the issued New Shares not already owned or agreed to be acquired by it or parties acting in concert with it.

Financial Restructuring Proposal

1. *Reasons and benefits*

The Directors consider that the Financial Restructuring Proposal could achieve the following:

- to enable the SCIT Group to dispose the Sale Interest for a total consideration of HK$239 million;
- to raise HK$66 million via the Subscription Agreement, resulting in an introduction of a new controlling Shareholder, Proper Glory;
- to apply the proceeds from the Subscription Agreement and the Disposal Agreement to repay HK$303 million (out of HK$320 million as at the Latest Practicable Date) of the Shareholders' Loan due to SCI, the current controlling Shareholder of the SCIT Group; and
- to effectively release SCIT's existing bank borrowings which are secured by some of the existing properties held under the Disposal Company totaling approximately HK$119 million as at the Latest Practicable Date by way of disposing the Sale Interest to SCI and novation of all the liabilities of SCIT as at completion of the Subscription Agreement (other than the Shareholders' Loan) to SCI.

In view of the above reasons and benefits of the Financial Restructuring Proposal, we concur with the view of the Directors that the existing indebtedness and finance costs of the SCIT Group would be reduced to a large extent upon completion of the Financial Restructuring Proposal, thereby improving the financial position of the SCIT Group. HK$65 million and HK$238 million out of the gross proceeds from the Subscription Agreement and the Disposal Agreement respectively will be utilised for repayment of the Shareholders' Loan and about HK$119 million out of HK$121 million in relation to bank debt would be taken up by SCI. Upon completion of the Disposal Agreement, SCIT will be able to reduce the annual finance costs of approximately HK$21.7 million (based on the current Hong Kong prime lending rate of 5.125%), representing a reduction of over 90% from the finance costs of approximately HK$23.2 million for the year ended 31 December 2001. In addition, the Disposal Agreement allows SCIT to release the loss-making property business. Further, the Financial Restructuring Proposal allows the Group to focus its resources on the development of SI-IT Business Company or any other potential business plan which may be identified by Proper Glory. Therefore, the Financial Restructuring Proposal may have positive effects on the future operating position of the SCIT Group. Upon completion of the Financial Restructuring Proposal, the pro forma net asset position would be improved to approximately HK$1.5 million or net asset value per New Share of HK$0.00045 from the net deficit of approximately HK$58.5 million or net deficit of HK$0.172 per Existing Share (as adjusted for the Share Consolidation and taken into account of the revaluation deficit of HK$85 million as at 31 March 2002). Despite the fact that the beneficial shareholders of Proper Glory and the proposed directors have no direct experience in managing the SI-IT Business Company, the beneficial shareholders of Proper Glory and the proposed directors may, with a broad base of business and management experience and strong business connection in the PRC, bring a new momentum and inspiration to the SCIT Group in the future. However, no new investment or business plan has been developed at this stage. Independent Shareholders should note that any future injection of business or assets may be likely to constitute major or very substantial transaction of SCIT which require Shareholders' approval. In case of very substantial acquisition, the dealings in the securities will normally be suspended. The Stock Exchange will have the sole discretion to decide whether the issuer's application for a lifting of the suspension will be treated as if it were an application for new listing.

2. *The Subscription Price*

The subscription price of HK$0.022 ("Subscription Price") pursuant to the Subscription Agreement represents:

(i) a discount of approximately 71.8% to the audited net asset value of approximately HK$0.078 for 2 Existing Shares based on the audited consolidated accounts of SCIT as at 31 December 2001;

(ii) a discount of approximately 97.8% to the aggregate closing prices of HK$1.00 for 2 Existing Shares quoted on the Stock Exchange on 18 April 2002 prior to the suspension of trading in the Existing Shares on 18 April 2002;

(iii) a discount of approximately 97.2% to the average closing price of approximately HK$0.785 for 2 Existing Shares quoted on the Stock Exchange for the 10 trading days up to and including 18 April 2002;

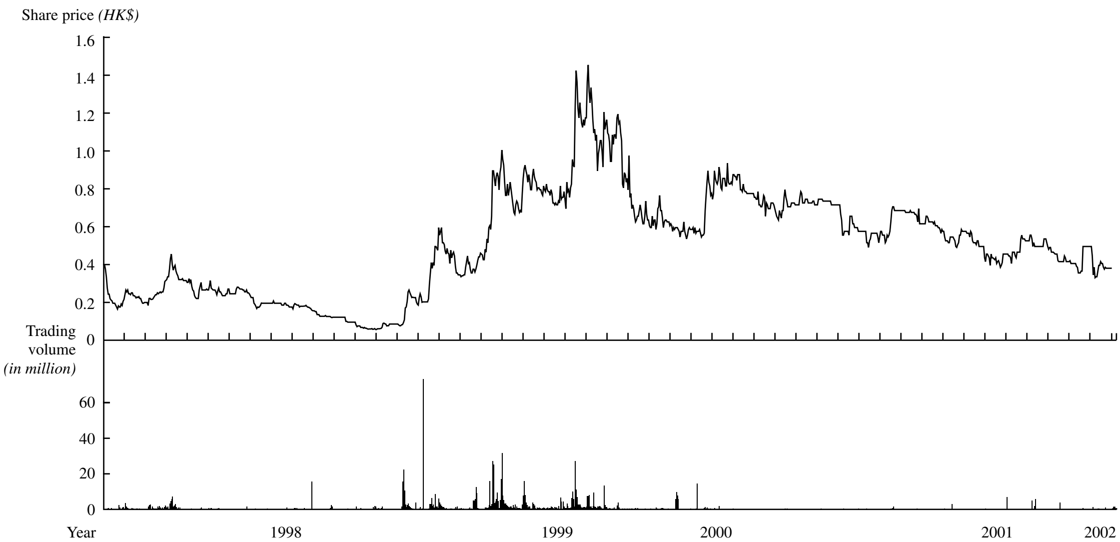
(iv) a discount of approximately 97.1% to the aggregate closing prices of HK$0.77 for 2 Existing Shares quoted on the Stock Exchange on the Latest Practicable Date; and

(v) a discount of approximately 97.1% to the average closing price of approximately HK$0.771 for 2 Existing Shares quoted on the Stock Exchange for the 10 trading days up to and including the Latest Practicable Date.

The Subscription Price was determined and negotiated on an arm's length basis amongst the parties to the Subscription Agreement after taking into account the SCIT Group's pro forma net asset position of approximately HK$1.5 million and net asset value per New Share of HK$0.00045 upon completion of the Subscription Agreement based on the net asset value of the SCIT Group as at 31 December 2001 of approximately HK$26.5 million (equivalent to approximately HK$0.039 per Existing Share) and adjusted by the subscription of Subscription Shares and the disposal of the Disposal Company as contemplated under the Financing Restructuring Proposal) and the fact that SCIT has been loss making for the five years ended 31 December 2001. For the years ended 31 December 1997, 1998, 1999, 2000 and 2001, the audited losses attributable to the Shareholders were approximately HK$235 million, HK$73 million, HK$52 million, HK$48 million and HK$103 million respectively.

The Existing Share price of SCIT as at the Latest Practicable Date was HK$0.385 which is equivalent to HK$0.77 after adjusting for the Share Consolidation. Nevertheless, based on the continuous losses attributable to Shareholders, the marginally positive net asset position of the SCIT Group as at 31 December 2001 and net deficit position after taken into account of the HK$85 million revaluation deficit as at 31 March 2002, we are unable to find any applicable valuation basis to support the Existing Shares at the current trading price level.

The following chart shows the movement of the closing price of the Existing Shares and the trading volume during the period from 2 January 1998 to the Latest Practicable Date:



With reference to the Existing Share price and trading volume charts covering the last four years and the current year, we have noted the following:

- during 2002 up to the Latest Practicable Date, daily closing prices of the Existing Shares have reflected a price to net asset value ("price-to-book") range of approximately 14.4 times to 8.6 times (without taking into account the revaluation deficit on property interest of HK$85 million) (the historic price-earnings ratio range during the same period of time was not applicable as the SCIT Group reported net loss attributable to Shareholders for the year ended 31 December 2001);

- the Existing Shares were more evidently traded on fundamental valuations only during the period of 1998 to 1999 (based on a historic price-to-book range of approximately 4 times to approximately 0.2 time during the period. Price-earnings ratio remained inapplicable as the SCIT Group has reported losses since 1995), which is substantially lower than the recent price-to-book value mentioned above;

- a continuous rise in the Existing Share price during 1999 and early 2000, which we consider as likely to be attributable to the highly speculative retail investor interest in high-technology and Internet investments. During that period of time, SCIT announced a series of technology related activities, including the change of its company name and the acquisition of several PRC technology joint ventures; and

- a decline in the Existing Share price during 2000 when the "high-technology bubble" burst. In the first quarter of 2000, the closing prices of Existing Share were trading at a range from HK$0.7 to HK$1.46 while the Hang Seng Index was trading at a closing range from approximately 15103 to approximately 18302 points. In the second quarter of 2000, the Hang Seng Index declined to a closing range of approximately 13723 to approximately 16942 points. Parallel to the general sentiment in the market, the Existing Share was trading at a range from HK$0.58 to HK$1.06. In the third quarter of 2000, the Existing Share was trading at a range from HK$0.54 to HK$0.94 while the Hang Seng Index was trading at a range from approximately 14613 to approximately 17921 points. In the last quarter of 2000, the Existing Share was trading at a range from HK$0.64 to HK$0.88 while the Hang Seng Index was trading at a range of approximately 13984 to approximately 16185 points.

Based on the above, we are of the opinion that although the Existing Shares had been trading at a price range from HK$0.285 to HK$0.57 during the period from January 2002 and up to the Latest Practicable Date, which represented substantial premiums of approximately 5,082% to 2,491% (after adjusting for the Share Consolidation) to the Subscription Price. We attribute such premium, to a large extent, as not truly reflecting the fundamentals of the SCIT Group — as the results of the SCIT Group for the year ended 31 December 2001 announced on 24 April 2002 reflected a worsening financial position and poor trading results. We therefore conclude that the use of the historical and current trading Existing Share price in valuing the fairness and reasonableness of the Subscription Price alone are not justifiable.

In view of the above, we have analysed the Subscription Price with respect to the net asset value of HK$0.078 per Existing Share as at 31 December 2001 which reflects a discount of approximately 72% to the net asset value of SCIT (as adjusted for the Share Consolidation). However, the Subscription Price of HK$0.022 reflects a premium amounting to HK$0.194 to the net deficit per Existing Share of HK$0.172 (as adjusted for the Share Consolidation) after taken into account of the revaluation deficit of HK$85 million as at 31 March 2002.

Notwithstanding our positive opinion on the use of the price-to-book approach in analysing the fairness and reasonableness of the Subscription Price and our view on the speculative nature of the current Existing Share trading performance, we recognise that the current trading Existing Share price also serves as a reference in comparing the Subscription Price. We consider that under the price-to-book approach which is based mainly on the fundamentals of the SCIT Group in valuing the subscription price, the Subscription Price represents a fair valuation on the SCIT Group. However, if the current trading Existing Share price is to be used as a reference in comparison with the Subscription Price, the current trading Share price of HK$0.385 (being the closing Share price as at the Latest Practicable Date) which, after adjusting for the Share Consolidation to arrive at HK$0.77 per New Share, would represent a premium of 3,400% above the Subscription Price. Therefore in terms of the current trading Existing Share price (as adjusted for the Share Consolidation) of HK$0.77 as at the Latest Practicable Date, we would consider the Subscription Price of HK$0.022 to be substantially below the value currently attributed to the SCIT Group by the trading market. Leveraged on the business management experience of Proper Glory and the proposed directors of SCIT, the Company may be benefited from the potential value of the new momentum and inspiration bringing in by them. However, there is no reasonable basis for us to ascertain such potential value as no new investment or business plan has developed at this stage. On this basis, Independent Shareholders are advised to make reference to their investment objectives and review their investment strategies regarding the timing of realisation of their investments as well as their targeted investment return, and to take appropriate actions accordingly.

3. *Effects of the Subscription*

a. Change of controlling Shareholder and composition of the Board

Upon completion of the Subscription Agreement, a new controlling Shareholder, Proper Glory, will be beneficially interested in about 89.81% of the equity interests of SCIT, while SCI shareholding interests in SCIT will be diluted from about 70.35% to about 7.17%. All of the existing executive Directors and independent non-executive Directors will, as permitted under the Takeovers Code, resign as soon as possible after completion of the Subscription Agreement, while new executive directors and independent non-executive directors of SCIT will be nominated by Proper Glory as soon as possible after completion of the Subscription Agreement and as permitted under the Takeovers Code.

As disclosed in the "Letter from the Board" in the Circular, the beneficial shareholders of Proper Glory include Mr. He Xue Chu, Mr. Ku Wai Kwan, Mr. Zhou Teng, and Mr. Wong Hing Kwok. The beneficial shareholders of Proper Glory have a wide range of business experience principally in the PRC, including international trade, accounting and finance, property investment and development, construction, manufacturing, engineering, electronic software and Internet networking. It is intended that all the beneficial owners of Proper Glory will be appointed as executive directors of SCIT after completion of the Subscription Agreement.

The beneficial shareholders of Proper Glory and the proposed directors with a broad base of business and management experience and strong business connections in the PRC, may bring a new momentum and inspiration to the SCIT Group in the future. However, no new investment and business plan has been identified at this stage. Furthermore, from March 2000 to August 2001, Mr. He Xue Chu, one of the beneficial shareholders of Proper Glory and the proposed directors of SCIT, was an executive director of Interchina Holdings Company Limited ("Interchina"), a company listed on the Main Board of the Stock Exchange, and was one of the new investors who participated in the debt restructuring of Interchina. In addition, all four proposed directors of SCIT have been executive directors of Fourseas.com Limited since August 2001. We consider that Mr. He Xue Chu possesses adequate exposure and experience in acting as an executive director of a listed company in Hong Kong. However, as Mr. He was only appointed to the board of directors of Interchina from March 2000 to August 2001 and to the board of directors of Fourseas.com Limited since August 2001, we consider his period of service as an executive director of Interchina not sufficient for us to form an opinion on Mr. He's performance by reference to the performance of Interchina and Fourseas.com Limited after their respective debt/financial restructuring. Despite the fact that Mr. He Xue Chu and the proposed directors do not have direct experience in the software development and system integration businesses, the Group can leverage on their broad base business and management experience to develop business in the PRC market. In view of their exposure to the PRC market, their possession of PRC connections and prior experiences in acting as director of other listed companies, we consider Mr. He and the proposed directors as suitable persons to be the executive directors of the Company.

b. Dilutive effect on shareholdings of Independent Shareholders

Set out below is the shareholding structure of SCIT before and after completion of the Financial Restructuring Proposal:

	Before the Capital Reorganisation and the Financial Restructuring Proposal		Immediately upon completion of the Financial Restructuring Proposal	
Shareholders	**No. of Shares**	**%**	**No. of Shares**	**%**
SCI through its subsidiary	478,746,550	70.35	239,373,275	7.17
Proper Glory	0	0.00	3,000,000,000	89.81
Public	201,783,255	29.65	100,891,627	3.02
Total	680,529,805	100.00	3,340,264,902	100.00

Upon completion of the Financial Restructuring Proposal, Independent Shareholders' aggregate equity interests in SCIT will be diluted from approximately 29.65% as at the Latest Practicable Date to approximately 3.02%, while the equity interests of SCI in SCIT held through a subsidiary will be diluted from approximately 70.35% as at the Latest Practicable Date to approximately 7.17%, representing a dilution of approximately 90%.

According to the "Letter from Proper Glory" in the Circular, it is the intention of Proper Glory to continue to carry on the SI-IT Business following completion of the Subscription Agreement and the Disposal Agreement. It is also stated that Proper Glory intends to explore suitable business opportunities and new investments for SCIT after completion of the Subscription Agreement and the Disposal Agreement. Although Proper Glory has not identified any of such investment at this stage, they have indicated that in identifying such potential investments, reference will be made to enhancing the long term growth potential of the SCIT Group.

We consider the dilution brought about by the Financial Restructuring Proposal to be substantial. However, after taken into account the factors considered before, including:

- the overall business of the SCIT Group has been loss-making for over five years. The beneficial shareholders of Proper Glory and the proposed directors with a broad base of business and management experience and strong business connections in the PRC, may bring a new momentum and inspiration to the SCIT Group in the future which may or may not be beneficial to the Independent Shareholders;

- the substantial reduction of Shareholders' Loan and bank borrowings from approximately HK$320 million and approximately HK$121 million respectively as at the Latest Practicable Date to approximately HK$5 million of Shareholders' Loan and HK$2 million bank borrowing upon completion (the reduction includes the bank borrowings of approximately HK$119 million to be taken up by SCI and the repayment of Shareholders' Loan of approximately HK$303 million by the proceeds from the Subscription Agreement and the Disposal Agreement) and savings in finance costs of approximately HK$21.7 million (based on the current Hong Kong prime lending rate of 5.125%) from the finance costs of approximately HK$23.2 million for the year ended 31 December 2001, which significantly improve the future operating conditions of the SCIT Group;

- the release of all those Disposal Company that engaged in property development and investment, which have continuously been contributing losses of approximately HK$94 million and approximately HK$16.2 million for the two years ended 31 December 2001 and 2000 to the SCIT Group, enables the SCIT Group from further subsidising its property business and enhancing its future operating conditions;

- the Management Agreement and the Joint Venture Deed ensure the provision of necessary management expertise for the continuous and smooth operations of the SI-IT Business Company after completion of the Subscription Agreement and the Disposal Agreement; and

- the Put Option provides an exit to SCIT in the event that future operating performance of the SI-IT Business after completion of the Subscription Agreement and the Disposal Agreement is not to the satisfaction of the then Shareholders;

we consider the substantial dilution brought about by the Financial Restructuring Proposal to be an acceptable trade-off. On this basis, we consider the Financial Restructuring Proposal which, if implemented, would result in a substantial dilution on the equity interests of the existing Shareholders, be acceptable.

Independent Shareholders should nevertheless be reminded that the Existing Shares are currently trading at a significant premium to their underlying net asset value and there is still considerable liquidity in the trading market for the Existing Shares. From January 2002 up to the Latest Practicable Date, the total trading volume of the Existing Shares is approximately 24.6 million, accounting for approximately 12.2% of the shares held in public hand before the Capital Reorganisation and the Financial Restructuring Proposal. If the Independent Shareholders consider that such a dilution on their shares of investment in SCIT is not to their advantage or is not in accordance with their investment objectives, they are advised to review their investment strategies regarding the timing of realisation of their investments as well as their targeted investment return, and to take appropriate actions accordingly.

Upon completion of the Subscription Agreement and the Disposal Agreement, Proper Glory, together with SCI will in aggregate hold approximately 96.98% equity interests of SCIT. As less than 25% of the New Shares in issue will be held in the public hands, Proper Glory and its directors and the proposed directors of SCIT Group have jointly and severally undertaken to the Stock Exchange that they will take appropriate steps as soon as possible upon completion of the Subscription Agreement to ensure that not less than 25% of the New Shares in issue will be held by the public through a placing down of the shareholding of Proper Glory in SCIT to independent third parties not connected with the directors, chief executive or substantial shareholder of SCIT or any of its subsidiaries or their respective associates (as defined on the Listing Rules).

As it is stated in the "Letter from Proper Glory" in the Circular that no firm placing down arrangements have been made at present, we are unable to opine on the effect of any future placing down with reference to any actual arrangement. However, Independent Shareholders may note that the placing down arrangement may take the form of either a placing of the then existing New Shares to be held by Proper Glory or a placing of newly issued shares. In the event that New Shares owned by Proper Glory are to be placed to independent third parties, there will be no dilution effect on the Shareholders, but the cash proceeds from the placing will go to Proper Glory. On the other hand, if SCIT is to allot and issue further New Shares to those independent third parties so as to dilute the then existing shareholdings of Proper Glory to less than 75% in aggregate, the shareholding interests of all Independent Shareholders will also be diluted to the same extent. Nevertheless, the cash proceeds from the placing will go to SCIT. Independent Shareholders should also note that if Proper Glory decides to allot and issue further New Shares for the placing down arrangement, the current general mandate granted to the Directors for the issue of New Shares will not be enough to cover a sufficient placement to ensure a 25% public float, which suggests that a separate Shareholders' vote will be required.

Independent Shareholders should also note that upon completion of the Subscription Agreement, the total number of New Shares (after the Share Consolidation) would be increased by more than 8.8 times. Depending on the placing down arrangement required to restore SCIT's minimum public float of 25%, the number of New Shares available to the public market for trading could increase by more than 30% of the issued share capital upon completion of the Subscription Agreement, potentially putting a significant downward pressure on the then trading New Share price. Independent Shareholders are advised to pay attention to the number of New Shares and corresponding placing price of the possible placing down arrangement. In view of that, Independent Shareholders, especially those whose investment objectives are primarily of short-term speculative nature, should closely monitor the share trading price in making their decision on the timing of disposing their investments.

If the Stock Exchange believes that (i) a false market exists or may exist in the trading of the New Shares; or (ii) there are too few New Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the New Shares on the Stock Exchange. Accordingly, Shareholders and the public should exercise caution when dealing in the shares of SCIT.

c. Use of proceeds

Pursuant to the Subscription Agreement and Disposal Agreement, HK$65 million out of the gross proceeds of HK$66 million and HK$238 million out of the gross proceeds of HK$239 million respectively will be applied in full towards repayment of part of the Shareholders' Loan at the Completion Date. Total Shareholder's Loan amounted to approximately HK$320 million as at the Latest Practicable Date, representing approximately 63% of the total liabilities amounting to HK$507 million, the remaining 37% are mainly HK$121 million bank borrowing and payable to creditors or other payables of approximately HK$66 million. The directors of SCIT have confirmed that SCIT will use all reasonable endeavours to seek the acknowledgement or confirmation in writing from its existing creditors (other than normal day-to-day trade creditors) that the proceeds from the Subscription Agreement, the sale price for the Disposal Company and proceeds from the exercise of the Put Option will not be applied by SCIT towards repayment of its loans to them. We concur with the Directors' view that it would be reasonable and more advantageous to SCIT Group to set off the interest bearing Shareholders' Loan first and then to pay the balance of the trade creditors in accordance with its normal trade credit terms when they fall due since the reduction of the Shareholders' Loan would result in substantial savings in finance costs. The repayment of HK$303 million of the Shareholders' Loan and bank borrowings of HK$119 million to be taken up by SCI would translate into a saving of approximately HK$21.7 million in finance costs per annum (based on the current Hong Kong prime lending rate of 5.125%) for the SCIT Group, representing approximately over 90% of the finance costs of approximately HK$23.2 million for the year ended 31 December 2001.

On the bases of the extent of the reduction in finance costs to be achieved by the repayment of the Shareholders' Loan, we consider the application of HK$65 million of the proceeds from the Subscription Agreement and HK$238 million from the Disposal Agreement for settlement of the Shareholders' Loan and HK$1 million of the proceeds from the Subscription Agreement and HK$1 million from the Disposal Agreement for the general working capital of SCIT to be fair and reasonable so far as the Independent Shareholders are concerned.

d. Put Option, Novation Deeds and Loan Assignment

As part of the Subscription Agreement, the Put Option to be granted by SCI to SCIT (assuming completion of the Financial Restructuring Proposal) would allow SCIT to sell its remaining 51% equity interests in the SI-IT Business Company to SCI within 549 days from the Completion Date. The exercise price of the Put Option is HK$5.5 million, of which HK$0.5 million will be paid to SCIT and HK$5 million will be set off against the balance of the Shareholders' Loan as at the Completion Date. Should there be any balance of the Shareholders' Loan which exceeds HK$5 million after the Completion, such balance will be waived. For illustration purpose only, if the Shareholders' Loan were HK$17 million after repayment of HK$303 million upon completion of the Financial Restructing Proposal, the amount to be waived would be approximately HK$12 million.

The Put Option effectively values 51% of the SI-IT Business Company at HK$5.5 million, which represents approximately 16% of the unaudited combined turnover of the companies comprising of the SI-IT Business for the year ended 31 December 2001. The exercise price of HK$5.5 million was agreed upon after arm's length negotiation between the parties thereto. SI-IT Business Company has recorded an unaudited losses of HK$61,000 and HK$1.2 million for the two years ended 31 December 2001. 49% of the SI-IT Business Company are being disposed of with reference to the net deficit value of HK$0.6 million. Owing to the expected improving operating results of the SI-IT Business Company, SCI has undertaken to SCIT that the turnover of the SI-IT Business Company arising from its ordinary activities for each of the two consecutive six-month periods commencing from the Completion Date will not be less than HK$10 million. Having taken into account of the potential growth in SI-IT Business Company, we consider the exercise price of HK$5.5 million for the Put Option, representing a premium of HK$6.1 million (which is arrived at the exercise price of HK$5.5 million net of the net deficit value of 51% of the SI-IT Business Company of approximately HK$0.6 million) as compared to the disposal value of the 49% equity interest, is in the interest of the Company and the Independent Shareholder as a whole are concerned. Both the granting of the Put Option by SCI to SCIT and the disposal of the Option Interest to SCI pursuant to the exercise of the Put Option constitute connected transactions for SCIT in accordance with the Listing Rules. As such, both the granting and the exercise of the Put Option are subject to separate approvals of the Independent Shareholders by way of a poll at general meetings.

The proposed directors of SCIT have indicated that they have no intention to procure SCIT to exercise the Put Option upon completion of the Subscription Agreement. However, they are fully aware of the requirements in relation to the sufficient operations of SCIT under Paragraph 38 of the listing agreement entered into between SCIT and the Stock Exchange in the event that the Put Option is exercised or the Option Interest is otherwise disposed of. As such, it is the intention of Proper Glory to explore suitable business opportunities and new investments for SCIT after completion of the Subscription Agreement and the Disposal Agreement. We consider the beneficial shareholders of Proper Glory and the proposed directors with a broad base of business and management experience and strong business connections in the PRC, may bring a new momentum and inspiration to the SCIT Group in the future. However, no investment plan has developed at this stage. Independent Shareholders shall aware that if Put Option is exercised or the Option Interest is disposed before SCIT has explored suitable business opportunities and new investment, SCIT may or may not have sufficient level of operations or tangible assets of sufficient value to warrant the continual listing of the shares of SCIT on the Stock Exchange.

We consider that the Management Agreement and the Joint Venture Deed will provide legitimate protection for the Independent Shareholders by encouraging the continuous and smooth operations of the SI-IT Business Company including but not limited to, provision of management servicing by SCI in respect of business directorship, legal advisory services, company secretarial services, accounting and taxation services, human resources management and marketing and promotion services, after completion of the Subscription Agreement and the Disposal Agreement. In addition, SCI undertakes to SCIT and the SI-IT Business Company that the turnover of the SI-IT Business Company arising from its ordinary activities for each of the two consecutive six-month periods commencing from the Completion Date shall not be less than HK$10 million. Such kind of undertaking is rather uncommon in the market. Further details of the Management Agreement are discussed in the section headed "Effects of the Management Agreement" below. Notwithstanding that, we consider that the Put Option offers an additional comfort to the Independent Shareholders that it serves as a legitimate exit mechanism for SCIT in its sole discretion should SCIT decide not to continue with the running of the SI-IT Business. On this basis, we consider the Put Option to be fair and reasonable so far as the Independent Shareholders as a whole are concerned.

The vast connection of the new investors in the PRC will possibly widen the customer base of the SI-IT Business Company, which may improve its future profitability. In view of the intention of Proper Glory to continue to carry on the SI-IT Business rather than the travelling business following completion of the Subscription Agreement and the Disposal Agreement, we consider that it is fair and reasonable for SCIT to enter into the Novation Deeds and the Loan Assignment in order to shift all its rights and obligations in relation to the travelling business to SCI.

Independent Shareholders should note that in the event that the Put Option is exercised, SCIT may or may not have sufficient level of operations or tangible assets of sufficient value to warrant the continual listing of the shares of SCIT on the Stock Exchange in accordance with paragraph 38 of the listing agreement entered into between SCIT and the Stock Exchange. Trading of shares in SCIT may be suspended and the delisting procedures stipulated in Practice Note 17 of the Listing Rules may be applied on SCIT. Proper Glory and its directors and the new directors to be appointed to the board of SCIT are fully aware of such requirements under the Listing Rules.

Contemporaneously at completion of the Subscription Agreement and the Disposal Agreement, SCIT and SCI (or its nominee) shall, enter into the Novation Deeds at nil consideration pursuant to which SCIT shall novate to SCI (or its nominee) all SCIT's rights and obligations arising under the Travel Business Agreements which are collectively, the agreements in relation to a financial restructuring exercise of Fourseas.com Limited announced on 28 June 2001, in so far as and to the extent that those rights and obligations are still outstanding as at completion of the Subscription Agreement and the Disposal Agreement, including but not limited to the put option granted by SCIT to Fourseas.com Limited and the provision of management services under the Travel Business Agreements, to the intent that the put option will be enforceable against SCI and the management services will be performed by SCI. Accordingly, Fourseas.com Limited shall have the right to require SCI, in place of SCIT, to acquire the remaining 51% interest in six indirect wholly-owned subsidiaries of Fourseas.com Limited which are engaged in the travelling and related businesses at HK$8 million. For each of the two years ended 31 December 2000 and 2001, the pro forma unaudited combined results for the subsidiaries of Fourseas.com Limited were net losses of approximately HK$17.4 million and HK$2.6 million respectively, while the unaudited combined net deficit during the same period were approximately HK$70.4 million and HK$4.5 million respectively. Under the Novation Deeds, SCIT shall forego an annual management services fee of HK$2 million from Fourseas.com Limited for the management services provided under the Travel Business Agreements. Since it is the intention of Proper Glory to continue to carry on the SI-IT Business following completion of the Subscription Agreement and the Disposal Agreement and Fourseas.com Limited has recorded deficit in its net asset value and remained as loss making for the last two years, we consider novation of all SCIT's rights and obligations arising under the Travel Business Agreement is fair and reasonable so far as the Independent Shareholders as a whole are concerned. Furthermore, at such completion, South China Strategic Limited, a wholly-owned subsidiary of the Disposal Company, shall assign to SCI (or its nominee) a loan owing from Fourseas.com Limited and its subsidiaries in the amount of HK$7,500,000 pursuant to the Loan Assignment.

4. *Effects of the Disposal Agreement*

Under the Disposal Agreement, SCIT intends to dispose the Sale Interest to SCI for a total consideration of HK$239 million. Sale Interest is the entire issued share capital of the Disposal Company and 49% of the issued share capital in the SI-IT Business Company. The Disposal Company is an investment holding company and through its subsidiaries are engaged in the information and technology related businesses, implementation and marketing of software applications, property development and investment and investments holding. Its investments include 49% equity interests in Four Seas Travel (BVI) Limited, Four Seas (BVI) Limited, Four Seas Corporate Management Limited, Hong Kong Four Seas Tours Limited, Gainfield Holdings Limited and Four Seas Corporate Services Limited, all of which are held by Full Sino Profits Limited, a wholly owned subsidiary of the Disposal Company, and are indirect wholly-owned subsidiaries of Fourseas.com Limited. They are engaged in the travel-related businesses. No separate valuation has been performed on these companies. As at 31st December 2001, the unaudited combined net asset value of these travel-related business subsidiaries was in deficit of approximately HK$4.5 million while the unaudited combined net asset value of the information and technology related business subsidiaries was in deficit of approximately HK$11.6 million.

The table below shows the components and net book value of the Disposal Company provided by the Company:

1. Property development and investment

	No. of companies	**Net book value as at 31 December 2001**	**Net book value as at 31 December 2000**
		HK$'000	*HK$'000*
Principal business: Interest in investment properties, leasehold land and building, land under development and land pending for development	28	43,870	196,120

Consists of 3 major categories

Group I — 24 properties: property interests held for investment by the Group in Hong Kong
Group II — 2 properties: property interests held for sale by the Group in the PRC
Group III — 4 properties: property interets held for development by the Group in the PRC

		No. of companies	Net book value (deficit) as at 31 December 2001 *HK$'000*	Net book value (deficit) as at 31 December 2000 *HK$'000*
2.	Information and technology related businesses	13	(11,620)	(4,390)
	Principal businesses: - Education software - Tickets sales & management system system - Tax reporting software - Research and development for field programmable gate array - Office automation system - General software development - Sale of computer hardware			
3.	Travel and related businesses	8	(4,500)	(70,400)
	Principal business: Sale of air tickets and provision of other travel related business (e.g. hotel booking)			
	Total	49	27,750	121,330

In considering the quality of the properties to be disposed of, we consider that most of these properties are with low marketability as some of these properties are old-aged commercial properties and are located in unpopular areas in Hong Kong and the PRC. As discussed with BMI Appraisals Limited, there is a continuous decline in the monthly rental for Grade-A commercial building in Central since the end of 2001. The current financing costs attached to these properties are well above the current rental income generated from these properties. Unless the rental income from these properties substantially increases, the SCIT Group would have to subsidise the costs of holding these properties. In view of the existing sluggish condition in the property market, we consider the disposal of the Disposal Company is in the interests of the Company.

The consideration was arrived at with reference to the pro forma adjusted net tangible asset value of the Disposal Company together with 49% of the issued share capital of the SI-IT Business Company of approximately HK$239 million, based on the net asset value of the SCIT Group of approximately HK$26.5 million and adding the Shareholders' Loan of approximately HK$297 million as at 31 December 2001 (since the Shareholders' Loan will not be disposed of) and the effect of the exclusion of 51% interests in SI-IT Business Company retained by the SCIT Group of approximately HK$0.6 million as contemplated in the Disposal Agreement (since the SI-IT Business Company retained by the SCIT Group had net deficiency in assets of approximately HK$1.2 million) and subtracting the deficit of approximately HK$85 million on revaluation of properties to be disposed of by the parties to the Disposal Agreement. For the year ended 31 December 2001, net losses attributed by property development and investment business, information and technology related business and travel and related business amounted to approximately HK$94 million, HK$5 million and HK$2.6 million respectively. (2000: losses amounted to approximately HK$16.2, HK$14.4 and HK$17.4 respectively). In view of the poor performance during 2000 and 2001 and the fact that SCIT has recorded continous losses since 1995, we believe it is not likely for SCIT Group to recover the investment costs and record profit in the near future if the disposal asset were retained by the SCIT Group.

a. The Disposal Company

The pro forma adjusted net asset value of the Disposal Company of about HK$27.7 million as at 31 December 2001 was arrived at after taking into account of HK$26.5 million net asset of SCIT Group as at 31st December 2001 net of deficit of SI-IT Business Company of HK$1.2 million, without making reference to the property revaluation deficit of about HK$85 million as at 31 March 2002 prepared by BMI Appraisals Limited and FPDSavills (Hong Kong) Limited, whose valuation letter is included in Appendix II to the Circular.

SCI is to assume responsibility for all repayment of those bank borrowings attached to the Disposal Company. Of the total proceeds, HK$238 million will be applied to repay the Shareholders' Loan of HK$320 as at the Latest Practicable Date and HK$1 million will be paid to SCIT by cashiers order on the Completion Date.

The unaudited combined results of the Disposal Company were net losses of approximately HK$48 million and HK$102.2 million for the years ended 31 December 2000 and 2001 respectively. Considering the relatively weak financial position of the SCIT Group, its debt level will be significantly reduced from Shareholders' Loan of approximately HK$320 million and bank borrowing of approximately HK$121 million as at the Latest Practicable Date by the disposal of the properties held under the Disposal Company, as HK$238 million of Shareholders' Loan will be repaid from the proceeds of the Disposal Agreement and bank borrowings of approximately HK$119 million (based on the outstanding amount as at the Latest Practicable Date) attached to these properties will be fully taken up by SCI.

Disposal Company has been principally engaged in property development and letting business and investment holding, which remained as loss making since 1995. As confirmed by the Directors, the properties to be disposed of generated approximately HK$0.4 million in aggregate in rental income per month for the period ended 31 March 2002, representing approximately 0.4% of turnover for the year ended 31 December 2001. With reference to the current Hong Kong prime lending rate of 5.125%, its monthly interests on the then reduced HK$422 million of Shareholders' Loan and bank borrowings attached to the properties which amount to approximately HK$1.8 million cannot be covered by the monthly rental income of approximately HK$0.4 million.

We have also noted that the disposal of the Disposal Company would improve the SCIT Group's financial position from a net deficit of HK$58.5 million (taking into account the deficit on revaluation of property interests of approximately HK$85 million) as at 31st December, 2001 to approximately HK$1.5 million upon completion of the Financial Restructuring Proposal.

As the properties to be disposed of have been contributing losses to the SCIT Group, we consider the disposal of these properties would release the SCIT Group from further subsidising its property business. Furthermore, the Disposal Company is also a loss-making business and its disposal would not have any material negative effect on the continuous operation of the SCIT Group. As disclosed in the annual report of 2001, given the stagnant property market, the leasing progress of some properties is slow. The property market is anticipated to remain sluggish until the property market and the overall economic environment show signs of improvement. As discussed above, the monthly rental income cannot cover the interest on the bank borrowing attached to the properties. In addition, the Group has been considering disposing of some of or its entire existing property portfolio to reduce its heavy indebtedness and finance cost burden. The disposal assets, including the investment properties, has recorded continues diminution in values during 2000 and 2001. The SCIT Group has charged against its income statement deficit on revaluation of investment properties amounted to approximately HK$8.9 million and HK$3.4 million for the years ended 31 December 2000 and 2001 respectively. Aggregate provision for impairment in value of long term investment and land pending development during the same period were approximately HK$4.4 million and HK$16.8 million respectively. For each of the years ended 31 December 1998 and 1999, deficit on revaluation of investment properties charged to income statement amounted to approximately HK$10.5 million and HK$1.6 million respectively. Continuous deficits on revaluation of investment properties reflect the poor performance of the disposal assets in the property market and the general deterioration in the property maket. On these bases, we consider the disposal of the Disposal Company at the present consideration which based on its net asset value, to be fair and reasonable so far as the Independent Shareholders are concerned.

b. The SI-IT Business Company

The 49% equity interest in the SI-IT Business Company has been valued at the adjusted net asset deficit of the 49% equity interest in the SI-IT Business Company of approximately HK$0.6 million as at 31 December 2001. The consideration was arrived at through arm's length negotiations between SCIT and SCI. The proposed directors of SCIT have confirmed that they have no intention to procure SCIT for the exercise of the Put Option upon completion of the Subscription Agreement.

SI-IT Business Company

SI-IT Business is an investment holding company and its major subsidiaries are two joint venture companies in the PRC. The value of the SI-IT Business Company is mainly contributed by the net book values of the two joint venture companies below:

1. Chongqing South China Zenith Information Technology Co., Ltd.

   Principal business

   application software development, project management, website development, IT solutions outsourcing, system analysis and design, consultation, maintenance, and the provision of support services and security solutions

Cost of investment	% held by SCIT	Incorporation Date	Net book value (deficit) in the SCIT Group as at 31 December 2001	Net book value (deficit) in the SCIT Group as at 31 December 2000
Renminbi '000			*HK$'000*	*HK$'000*
4,200	60%	4 April 2000	(200)	250

2. Nanjing South China Skytech Information Technology Co., Ltd.

Principal business

system integration and the provision of customer relationship management solutions

Cost of investment	% held by SCIT	Incorporation Date	Net book value (deficit) in the SCIT Group as at 31 December 2001	Net book value (deficit) in the SCIT Group as at 31 December 2000
Renminbi '000			*HK$'000*	*HK$'000*
4,000	66.7%	10 March 2000	(1,030)	(330)
Total			(1,230)	(80)

There was no written down in value and no capital commitment to the two joint venture companies mentioned above.

Our views on the terms of the Disposal Agreement in connection with the disposal of the SI-IT Business Company are as follows:

- As stated in the Circular, the proposed directors to be appointed to the Board upon completion of the Subscription Agreement and the Disposal Agreement have no experience in managing the SI-IT Business Company. As such, it is understandable for SCIT to sell a minority stake in the SI-IT Business Company to SCI, the existing controlling Shareholder who is currently responsible for managing the SI-IT Business Company. As such, we consider that SCI would provide the SCIT Group with the necessary management requirements for the continuous and smooth operations of the SI-IT Business Company upon completion of the Subscription Agreement and the Disposal Agreement. Further, SCI undertakes to SCIT and the SI-IT Business Company that the turnover of the SI-IT Business Company arising from its ordinary activities for each of the two consecutive six-month periods commencing from the Completion Date shall not be less than HK$10 million. In addition, through the disposal of minority stakes in SI-IT Business, it leaves the flexibility with SCIT to determine whether SCIT should continue with the SI-IT Business or not and minimise the risk relating to operating losses of the SI-IT Business. The sale of the minority stake of SI-IT Business to SCI serves an incentive or motivation for retaining SCI as the manager of the SI-IT Business. This arrangement, together with the Management

Agreement as discussed below, provides both management continuity and management incentives for smooth operations after completion of the Subscription Agreement and the Disposal Agreement while the Proper Glory will possibly bring along its broad connections in the PRC; and

- In opining on the basis of consideration for the disposal of the 49% equity interest in the SI-IT Business Company, we note that the SI-IT Business Company has continuously been loss-making during the two financial years ended 31 December 2001. Further, price-earning ratio is not applicable as a basis of consideration and the use of the current trading Existing Share price in valuing may not be justifiable. The unaudited combined losses of the SI-IT Business Company were approximately HK$61,000 and HK$1.2 million for the years ended 31 December 2000 and 2001 respectively. SCIT, however, will continue its effort of investing in the PRC's information technology business and expected Proper Glory will possibly bring along its broad connection in the PRC to the existing business. The cost of investment for the two joint ventures mentioned above was approximately Renminbi 8.2 million. If SCIT exercises the Put Option to dispose the remaining 51% of SI-IT Business, it will receive HK$5.5 million as consideration (of which HK$5 million will be used to offset the Shareholders' Loan). As a result of this, SCIT can improve its net asset value by approximately HK$6.7 million for the disposal of the SI-IT Business (taking into consideration of the net deficit of approximately HK$1.2 million of the SI-IT Business Company). Although there is an obligation to pay for the management fee to SCI pursuant to the Management Agreement, we consider the consideration for the disposal of the 49% equity interests in the SI-IT Business Company, which is equivalent to its attributable net asset deficit of approximately HK$0.6 million as at 31 December 2001 to be fair and reasonable.

Of the total proceeds of HK$239 million from the Disposal Agreement, HK$238 million will be utilised for repayment of a portion of the Shareholders' Loan and about HK$119 million in relation to bank debt attached to the properties to be disposed would be taken up by SCI. We concur with the Directors' view that it would be reasonable and more advantageous to SCIT Group to set off the interest bearing Shareholders' Loan first and then to pay the balance of the trade creditors in accordance with its normal trade credit terms when they fall due since the reduction of the Shareholder's Loan would result in substantial savings in finance costs.

The repayment of Shareholders' Loan and the bank debts to be taken up by SCI would translate into a saving of approximately HK$21.7 million in finance costs per annum (based on the current Hong Kong prime lending rate of 5.125%) for the SCIT Group, representing over 90% of the SCIT Group's finance costs of approximately HK$23.2 million for the year ended 31 December 2001.

On these bases, we consider the application of most of the proceeds from the Disposal Agreement for the repayment of the Shareholders' Loan to be appropriate so far as the Independent Shareholders are concerned.

5. *Effects of the Management Agreement*

As stated in the Circular, the proposed directors to be appointed to the Board upon completion of the Subscription Agreement and the Disposal Agreement have no experience in managing the SI-IT business. As such, the Management Agreement was entered into with an intention to ensure the continuous and smooth operations of the SI-IT Business after completion of the Subscription Agreement and the Disposal Agreement.

As stated in the "Letter from Proper Glory" in the Circular, Proper Glory has no immediate plans to make redundant any of the existing staff of the SCIT Group. In addition, SCIT also confirmed that the existing directors of SCI, who are also the Directors and have been managing the SI-IT Business since its date of acquisition, will remain to be directors of the SI-IT Business Company as allowed under the Management Agreement, and will continue to manage the SI-IT Business Company in the capacity as the manager. We consider such an arrangement to be in line with the intention to ensure the continuous and smooth operations of the SI-IT Business Company after completion of the Subscription Agreement and the Disposal Agreement.

Under the Management Agreement, SCI will be responsible to provide to the SI-IT Business Company and its subsidiaries all management services that is customary and usual for the operation of similar business. Pursuant to the Management Agreement, SCI will be granted the control of the management, operation and affairs of the SI-IT Business, including but not limited to the business direction and selling and marketing policies for the SI-IT Business, provided that there is no major departure from the current business direction without prior written consent of SCIT.

The transactions contemplated under the Management Agreement entered into between SCIT, the SI-IT Business Company and SCI and certain other transactions which will be engaged into on an ongoing basis between SCIT and the SI-IT Business Company, and between SCI and SCIT to facilitate the Financial Restructuring Proposal will constitute Ongoing Connected Transactions.

Under the Management Agreement, SCIT will appoint SCI to manage the SI-IT Business Company for a period of six years commencing from the Completion Date. An initial management fee of HK$2 million will be payable in arrears to SCIT for the first 549 days following the Completion Date, while SCI will be solely responsible for the provision of working capital for the SI-IT Business during such 549 days, which should be less than HK$16 million as expected by the Directors. However, there is no management services provider with comparable business nature and operating size is available in the market for our comparison.

The Management Agreement also provides an adjustment scheme for subsequent annual management fees pursuant to which the management fee will be adjusted upward at the rate equivalent to the increase in the Composite Consumer Price Index of the previous 12-month period plus an increase equivalent to 0.5% of the increase in the trading turnover of the SI-IT Business Company over such 12-month period. Furthermore, in the event that the Option Interest shall not be transferred to SCI pursuant to the exercise of the Put Option, SCIT will be obliged to provide funding support for the SI-IT Business by a maximum amount of HK$8 million if required, commencing from the expiration of the first 549 days from the Completion Date and thereafter increasing by HK$2 million per annum (which is equivalent to the management fee, prior to any subsequent annual adjustments, under the Management Agreement) up to HK$16 million in the expiring year of the Management Agreement, which is comparable to the capital requirement for the first 549 days from the Completion Date.

Key terms of the Management Agreement and the corresponding comparison with that of the two previous financial periods are summarised as follows:

	For the year ended 31 December 2000	For the year ended 31 December 2001	Management Agreement
Management Fee	HK$4 million per annum	HK$4 million per annum	HK$2 million per annum
— as % of turnover of the SCIT Group	6.3%	3.6%	An increase equivalent to 0.5% of the increase in the turnover of the SI-IT Business Company over the 12-month period
— as % of gross profit of the SCIT Group	45.6%	16.7%	N.A.
Composite Consumer Price Index	Not specified	Not specified	Fee adjusted in line with annual rises in Composite Consumer Price Index
Funding support commitment	No formal commitment	No formal commitment	The manager to provide all necessary funding support for the first 549 days from the Completion Date which is expected to be less than HK$16 million; and SCIT to provide a maximum annual funding support of HK$8 million after the first 549 days from the Completion Date and thereafter increasing by HK$2 million per annum up to HK$16 million in the expiring year of the Management Agreement

We consider the terms of the Management Agreement to be fair and reasonable so far as the Independent Shareholders are concerned for the following reasons:

- SCI will be granted the autonomy and management power necessary to operate the SI-IT Business and to react to general unforeseen industry changes in the course of performing their duties, while SCIT will have the control over the overall strategic direction of the SI-IT Business Company. SCIT will retain the control of SI-IT Business as SCIT can appoint and remove up to three out of five directors in the board of directors of the SI-IT Business Company. The board base of business and management experience of the beneficial shareholders of SCIT, in particular their exposure to the PRC market and their possession of PRC connections can enhance the Group to capture potential growth. We consider this arrangement acceptable as it reflects the principal-agent relationship which according to our understanding is the essence of the Management Agreement;

- given the deflationary environment in Hong Kong for the past two years, with the year-on-year change of Composite Consumer Price Indices of -3.8% and -1.6% in 2000 and 2001 respectively, the inflation adjustment is expected to be negligible in the first year following the expiration of the first 549 days from the Completion Date, as we consider inflation is unlikely to show substantial growth in the first year following the expiration of the first 549 days from the Completion Date. We consider the management fee adjusted in line with the annual rises in Composite Consumer Price Index, which is a normal reflection of the general economy, to be fair and reasonable;

- while the annual management fee may rise in the later years, it will only increase (other than the annual inflation adjustment) if the SI-IT Business Company achieve growth in turnover, and the increase will remain at 0.5% of turnover per annum throughout the period of the Management Agreement. A management fee of HK$4 million was charged by SCI Group to the SCIT Group for each of the two years ended 31 December 2001. Such upward adjustment scheme serves to provide motivation and incentive for SCI as the manager for the SI-IT Business Company, thereby protecting the interests of the Independent Shareholders; and

- it should also be noted that the Management Agreement will be terminated if SCIT exercises the Put Option and dispose of the Option Interest to SCI, which essentially provides SCIT with the right to exit from the SI-IT Business and the Management Agreement altogether if SCIT is not satisfied with the performance of SCI.

In respect of the Directors' expectations on the future improvement of the turnover and operating results of the SCIT Group, we do not consider such an expectation as unjustifiable based on the fact that the Financial Restructuring Proposal, if completed, will significantly reduce the finance costs of the SCIT Group to an immaterial amount by discharging a substantial portion of its interest bearing bank borrowings and Shareholders' Loan, which will have a positive effect on the future financial performance of the SCIT Group.

We have noted that the Management Agreement is for a term of six years commencing from the Completion Date. We consider the operations and management of the SI-IT Business require special industry expertise. As mentioned before, the proposed directors of SCIT have no experience in managing the SI-IT Business. As such, sufficient time would be required by the proposed directors to develop their understanding of the SI-IT Business as well as the relevant business connections within the information technology industry. On the basis that it would be beneficial for the Shareholders to ensure the continuous and smooth operations of the SI-IT Business Company before the proposed directors acquire the necessary industry expertise and successfully develop the relevant business connections, we consider the term of six years as stipulated under the Management Agreement to be fair and reasonable so far as the Independent Shareholders are concerned.

We have also noted that for the period commencing from the expiration of 549 days from the Completion Date and ending on the date of termination of the Management Agreement, the burden of funding support would rest on SCIT. The maximum annual amount of funding support to be provided by SCIT up to the termination of the Management Agreement would range from HK$8 million to HK$16 million, which represents approximately 23% to 47% of the pro forma turnover of the SI-IT Business Company amounted to HK$34 million for the year ended 31 December 2001. The funding support given in the Management Agreement is the cap amounts in the next 6 years for the future business development of the SI-IT Business. The Directors do not have any specific expenditure schedule for that funding support at present. As discussed before, we consider the amount as reasonable after taken into account the future turnover growth in the SI-IT Business as expected by the Directors. Further, SCIT would only be required to honour the above arrangement if it decides to retain the SI-IT Business and not to exercise the Put Option. On this basis, we consider the bearing of the responsibility for funding support by SCIT commencing from the expiration of 549 days after the Completion Date to be fair and reasonable. Upon completion of the Disposal Agreement, SCIT will be able to release the loss-making property business. Further, the Group can focus its resources on the development of the SI-IT Business Company or any other potential business plan which may be identified by Proper Glory. Despite the fact that the beneficial shareholders of Proper Glory and the proposed directors have no direct experience in managing the SI-IT Business Company, they, with a board base of business and management experience and strong business connection in the PRC, may bring a new momentum and inspiration to the SCIT Group in the future. Management Agreement therefore ensures the continuous and smooth operation of SI-IT Business Company after completion of the Subscription Agreement and the Disposal Agreement. Based on the reasons as discussed above, we consider the Management Agreement to be fair and reasonable so far as the Independent Shareholders are concerned.

6. *Effects of the Joint Venture Deed*

To facilitate the delegation of management responsibilities as stipulated under the Management Agreement, SCIT, SCI, Fook Cheung (the wholly-owned subsidiary of SCI which will hold the 49% equity interests in the SI-IT Business Company upon completion of the Subscription Agreement and the Disposal Agreement) and the SI-IT Business Company have entered into the Joint Venture Deed.

According to the Joint Venture Deed, the business of the SI-IT Business Company and its subsidiaries shall be managed by the board of directors of the SI-IT Business Company which will delegate its powers and authorities with respect to the business of the SI-IT Business Company and its subsidiaries to SCI. However, the maximum number of directors and the quorum for meetings that are specified under the Joint Venture Deed are structured so that Proper Glory will have the majority of the board representation and that SCI will not have control over the board of the SI-IT Business Company.

We consider that:

- the main purpose of the Joint Venture Deed is to facilitate the Management Agreement; and

- the Joint Venture Deed sets out the board composition and quorum required for the SI-IT Business Company which effectively restrict the role of SCI to the manager of the SI-IT Business Company, while the control as a shareholder of the SI-IT Business Company is vested with SCIT. The quorum for meetings of the board of the SI-IT Business Company shall be four, of whom two shall be directors appointed by SCIT and two shall be directors appointed by Fook Cheung. Any questions arising at any meeting shall be decided by a majority of at least four out of five votes, out of the said four votes of which two shall be from directors appointed by SCIT and two shall be from directors appointed by Fook Cheung and in the case of equality of votes, the chairman shall not have a second or casting vote.

On this basis, we consider the Joint Venture Deed to be fair and reasonable so far as the Independent Shareholders as a whole are concerned.

7. *Effects of the Share Consolidation*

The Share Consolidation, as outlined on pages 11 to 12 of the Circular, is essentially a technical requirement which enables SCIT to raise funds via the Subscription Agreement and will also position SCIT for any future fundraising activities. Under the Share Consolidation, two existing Shares of SCIT are to be consolidated into one New Share of SCIT.

Independent Shareholders should note that approval of the Share Consolidation is required for the passing of the other relevant resolutions to facilitate the Financial Restructuring Proposal. In view of the potential positive financial effects brought about by the Subscription Agreement (as discussed under the paragraph headed "Effects of the Subscription") and to facilitate any future fund raising activities, we consider the Share Consolidation to be a sensible amendment to the current capital structure of SCIT. On these bases we consider the Share Consolidation to be fair and reasonable so far as the Independent Shareholders as a whole are concerned.

8. *Financial effects of the Financial Restructuring Proposal*

We consider that the Financial Restructuring Proposal, if implemented, will have the following effects on the operating performance and financial position of the SCIT Group:

- a reduction of HK$303 million in the Shareholders' Loan from approximately HK$320 million and approximately HK$119 million in bank borrowings from approximately HK$121 million as at the Latest Practicable Date;

- a substantial reduction of finance costs by over 90% from approximately HK$23.2 million for the year ended 31 December 2001 to approximately HK$21.7 million (based on the current Hong Kong prime lending rate of 5.125% per annum) resulting from the reduction of the interest bearing Shareholders' Loan of approximately HK$303 million and bank borrowings of approximately HK$119 million;

- the disposal of substantially all of the properties of the SCIT Group which, as mentioned before, have only been generating enough annual rental income for the year ended 31 December 2001 of HK$2 million to cover a portion of their attached annual finance costs of approximately HK$21.7 million (based on the current prime interest rate of 5.125% per annum), let alone the financial resources required to maintain the properties and operate the property business; and

- SCI to assume and be responsible for and indemnify SCIT for all the liabilities of SCIT as at completion of the Subscription Agreement (other than the Shareholders' Loan), which we consider as a sufficient protection to shareholders of SCIT. All actual liabilities upon completion of the Financial Restructuring Proposal would be approximately HK$16 million, as confirmed by the Directors. For the contingent liabilities, please refer to the Note 34 of the financial information of SCIT as set out in Appendix I to this Circular.

As a result, the net asset value per Share and the liquidity, Shareholders' fund and gearing ratio of SCIT Group will also be affected.

a. Effect on net asset value per share

In considering the improvement in the net asset value per New Share brought about by the Financial Restructuring Proposal, we have referred to the net asset value per share as illustrated below:

	31 December 1998 (per annual report)	31 December 2001 (per annual report)	31 December 2001 (taken into account revaluation deficit of HK$85m)	Immediately after the Financial Restructuring Proposal
Net asset/(deficit) as at (million)	228.6	26.5	(58.5)	1.5
Number of shares (million)	680.5	680.5	680.5	3,340
Net asset/(deficit) per Existing Share	0.336	0.039	(0.086)	N/A
Net assets/(deficit) after share consolidation of 2 Existing Shares into 1 New Share	N/A	0.078	(0.172)	0.00045

We noted that the net asset value per Existing Share reduced from approximately HK$0.336 for the year ended December 1998 to a net deficit of approximately HK$0.172 (taken into account the revaluation deficit on property interest of HK$85 million and adjusted for Share Consolidation) for the year ended 31 December 2001, representing a reduction of approximately HK$0.508 per Existing Share over the three year periods.

As explained in the letter from the Board, such deteriorating performance was attributable to the SCIT Group's lack of profits and substantial devaluations of approximately HK$85 million on the SCIT Group's properties. We consider that if the SCIT Group's operating performance remains weak and its financial position continues to deteriorate, its net asset value per Existing Share position is likely to further deteriorate.

Completion of the Financial Restructuring Proposal would increase the net asset value per New Share of SCIT to approximately HK$0.00045, as compared to a net deficit approximately HK$0.172 per Existing Share (adjusted for the Share Consolidation and revaluation deficit in investment properties) before the Financial Restructuring Proposal. However, we consider that if no appropriate action is taken to enhance the future operating conditions of the SCIT Group, there is a noticeable possibility (SCIT has recorded continuous losses since 1995) that the net asset value per Existing Share of SCIT would deteriorate below the net asset value per New Share of approximately HK$0.00045 achieved as a result of the Financial Restructuring Proposal.

b. Effect on liquidity, shareholders' funds and gearing ratio

The table as shown below illustrates the current assets, current liabilities and current ratio of the SCIT Group as at 31 December 1997, 1998, 1999, 2000 and 2001 respectively:

	As at 31 December				
	2001	**2000**	**1999**	**1998**	**1997**
Current assets *(HK$ million)*	109.47	75.56	33.13	112.28	218.64
Current liabilities *(HK$ million)*	105.6	48.68	30.88	116.20	99.28
Current ratio	1.04	1.55	1.07	0.97	2.20

As provided by the Company, the SCIT Group had an existing Shareholders' Loan of approximately HK$320 million, bank borrowings of approximately HK$121 million and other liabilities of approximately HK$66 million totaling approximately HK$507 million as at the Latest Practicable Date. Given the consideration receivable from the disposal of the Disposal Company of HK$238 million will be set off against the Shareholders' Loan under the Disposal Agreement and HK$119 million bank loan attached to the properties to be disposed will be taken up by SCI, the disposal of the Disposal Company would contribute to an one-off improvement in the future operating conditions of the Group. Current ratio of SCIT Group is relatively normal (usually ranging from 1 to 2) with an average of 1.37 over the past five years.

We have analysed the effect of the Subscription alone on the net asset value of the SCIT Group. On such basis, the shareholders' funds as at 31 December 2001 with the effect of revaluation deficit before and after the completion of Subscription Agreement (but before taking into account of the effects of the Disposal) would be a deficit of approximately HK$58.5 million and net asset of HK$7.5 million respectively, representing an improvement from a net deficit per Existing Share of HK$0.172 (adjusted for the Share Consolidation) to net asset value of HK$0.0022 per New Share. Net asset value per New Share after the subscription of Subscription Shares and the disposal of the Disposal Company is HK$0.00045, which is HK$0.00175 less than the value of just taking into the Subscription alone as the Sale Interest remained as loss making as discussed before.

The total debts rose by about 35% from about HK$311.4 million in 2000 to about HK$419.5 million in 2001. But owing to lower interest rates last year, the finance costs dropped by about 11% to about HK$23.2 million in 2001. As a result, finance costs amounted to about 97% and about 295% of gross profits for the years ended 31 December 2001 and 2000 respectively, while the gearing ratio, represented by total debts to shareholders' funds, rose from about 257% as at 31 December 2000 to about 1,583% as at 31 December 2001. Upon completion of the Financial Restructuring Proposal, the gearing ratio would be reduced to approximately 467%.

As at the Latest Practicable Date, the Shareholders' Loan, bank borrowings, and other liabilities were approximately HK$320 million, HK$121 million and HK$66 million respectively, amounting to total debts of approximately HK$507 million. Upon completion of the Financial Restructuring Proposal, the respective amounts would be approximately HK$5 million, 2 million and HK$9 million, amounting to approximately HK$16 million.

RECOMMENDATION ON FINANCIAL RESTRUCTURING PROPOSAL

We are of the opinion that the Financial Restructuring Proposal, if implemented, will have a positive effect on the future operating conditions of the SCIT Group, as evidenced by the significant improvement in its future operating position through the reduction in liabilities, the substantial reduction in one of its major expense items being the finance costs, and the disposal of its continuous loss making property business. The directors of SCIT have confirmed that SCIT will use all reasonable endeavours to seek the acknowledgement or confirmation in writing from its existing creditors (other than normal day-to-day trade creditors) that the Consideration, the sale price for the Disposal Company and the proceeds from the exercise of the Put Option will not be applied by SCIT towards repayment of its loans to them. Upon completion of the Financial Restructuring Proposal, the Financial Restructuring Proposal would result in an immediate enhancement of its net assets value per New Share of approximately HK$0.17245 (from deficit of approximately HK$0.172 per Existing Share turn around to net asset of approximately HK$0.00045 per New Share, both adjusted for the Share Consolidation and revaluation deficit on investment properties). SI-IT Business Company are still in the early stage of development and were not uncommon to recorded losses during the development phase in 2000 and 2001. Upon completion of Financial Restructuring Proposal, SI-IT business is the only business left in SCIT Group. The vast connection of Proper Glory in the PRC will possibly widen the customer base of the SI-IT Business Company, which may improve its future profitability. Proper Glory intends to continue the SI-IT business and to explore suitable business opportunities and new investments for SCIT after completion of Financial Restructuring Proposal, however no new business opportunities or investment have been identified at this stage. Independent Shareholders should note that the profitability in SI-IT Business Company may or may not be improved after the Financial Restructuring Proposal. Save for the uncertainty on the future development of the SCIT Group, we consider the Financial Restructuring Proposal to be fair and reasonable so far as the Independent Shareholders as a whole are concerned. We therefore advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the First Extraordinary General Meeting to approve the Financial Restructuring Proposal.

Notwithstanding our opinion as to the fairness and reasonableness of the Financial Restructuring Proposal in relation to the SCIT Group's net asset value per Existing Share, Independent Shareholders should note that the Existing Shares are currently trading at a historic price-to-book of approximately 9.87 times (with reference to the SCIT Group's net asset value per Existing Share of approximately HK$0.078 as at 31 December 2001 (adjusted for Share Consolidation) and the closing Share price of HK$0.77 as at the Latest Practicable Date), which represents a premium of approximately 34 times that of the price-to-book attached to the subscription price of HK$0.022 under the Subscription (on the basis that the Capital Reorganisation is completed). In view of the current trading Existing Share price, Independent Shareholders are advised to make reference to their investment objectives and review their investment strategies regarding the timing of realisation of their investments as well as their targeted investment return, and to take appropriate actions accordingly.

The Whitewash Waiver

1. Background

Upon completion of the Subscription Agreement, Proper Glory will hold approximately 89.81% of the enlarged issued share capital of SCIT (upon the Capital Reorganisation and the Share Consolidation becoming effective and enlarged by the Subscription Shares). Proper Glory has applied to the Executive for the Whitewash Waiver pursuant to Note 1 of Notes on Dispensations from Rule

26 of the Takeovers Code. Should the Whitewash Waiver not be approved by the Independent Shareholders or is not granted by the Executive, Proper Glory will be obliged to make an unconditional cash offer at HK$0.022 per New Share for all issued New Shares not already owned or agreed to be acquired by it or parties acting in concert with it.

SCIT Group has recorded losses every year since 1995. Should Proper Glory become the substantial shareholder, the beneficial shareholder of which and the proposed directors of SCIT who have a broad base of business and management experience and strong business connection in the PRC, may bring a new momentum and inspiration to the SCIT Group in the future. However, Independent Shareholders should note that no new investment or suitable business have been identified at this stage.

2. **Dilutive effect on shareholdings of Independent Shareholders**

Independent Shareholders should note that if the Whitewash Waiver is granted and the Financial Restructuring Proposal is completed, the shareholdings of the Independent Shareholders will be immediately diluted from approximately 29.65% to approximately 3.02%, while Proper Glory will hold approximately 89.81% in the issued share capital of SCIT.

Although the dilutive effect brought by the Financial Restructuring Proposal is substantial, we consider that such significant dilution should be balanced with the benefits of the Financial Restructuring Proposal, including:

- the substantial reduction of debts and finance costs from the Subscription Agreement and the Disposal Agreement, thereby significantly improving the future operating conditions of the SCIT Group;

- the release of all properties held by the Disposal Company, which have continuously been contributing losses to the SCIT Group, thereby preventing the SCIT Group from further subsidising its property business and enhancing its future operating conditions;

- the Management Agreement that ensures the provision of necessary management expertise for the continuous and smooth operations of the SI-IT Business Company after completion of the Subscription Agreement and the Disposal Agreement; and

- the Put Option that provides an exit to SCIT in the event that future operating performance of the SI-IT Business after completion of the Subscription Agreement and the Disposal Agreement is not to the satisfaction of the then Shareholders.

Shareholders should note that upon completion of the Subscription Agreement, Proper Glory will hold approximately 89.81% of the enlarged issued share capital of the SCIT (upon the Capital Reorganisation and the Share Consolidation becoming effective and enlarged by the Subscription Shares). As such, Proper Glory may increase its holding without incurring any future obligation under Rule 26 of the Takeovers Code to make a general offer.

RECOMMENDATION ON THE WHITEWASH WAIVER

In the event that the Whitewash Waiver is not granted by the Executive, Proper Glory, will in accordance with Rule 26 of the Takeovers Code, make an unconditional cash offer at HK$0.022 per New Share for all issued New Shares not already owned or agreed to be acquired by it or parties acting in concert with it. Pursuant to the Subscription Agreement, the New Shares are to be issued to Proper Glory at a price of HK$0.022, which represents a discount of 97.2% to the average closing price of 2 Existing Shares as quoted on the Stock Exchange over the 10 trading days immediately prior to the suspension of trading in the Existing Shares on 18 April 2002.

As stated on page 81 of this Circular, the unaudited pro forma adjusted combined net tangible asset value per New Share upon completion of the Financial Restructuring Proposal would have been HK$0.00045. The offer price will therefore represent a premium of approximately 48% to the pro forma unaudited combined net tangible asset per New Share as mentioned above. Having taken into account that the offer price will represent a premium to the pro forma unaudited combined net tangible asset per New Share, we are of the view that such offer price will be in the interests of the Independent Shareholders. However, the market price of Existing Share from 2 May 2002 (date of Announcement) to the Latest Practicable Date ranged from HK$0.285 to HK$0.55. In view of the substantial price differential between the current trading Existing Share price (adjusted for the Share Consolidation) and the price per New Share that would be offered under the unconditional cash offer which is HK$0.022, we consider that the Independent Shareholders who wish to exit from their investments would unlikely to be better off with the unconditional cash offer and therefore shall choose to sell the Existing Shares at the market. Since we do not consider the unconditional cash offer to be a relevant consideration for Independent Shareholders in protecting their interests, we therefore advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the First Extraordinary General Meeting to approve the Whitewash Waiver by way of a poll.

Special Deal Consents

The granting of Put Option, Novation Deeds and the Loan Assignment under the Subscription Agreement, the Management Agreement and the Joint Venture Deed are regarded as special deals under Rule 25 of the Takeovers Code, details and our advice of each of the agreements are set out under the headings of "Put Option, Novation Deeds and the Loan Assignment", "Effects of Management Agreement" and "Effects of Joint Venture Deed". Independent Shareholders will be asked to vote on the relevant resolutions to be proposed at the First Extraordinary General Meeting to approve the special deals by way of a poll.

RECOMMENDATION ON SPECIAL DEAL CONSENTS

We consider that (i) the Put Option provides an exit to SCIT in the event that future operating performance of the SI-IT Business after the Subscription Agreement and the Disposal Agreement is not to the satisfaction of the then SCIT Shareholders; (ii) the Novation Deeds and the Loan Assignment allow SCIT to novate to SCI (or its nominee) all SCIT's rights and obligations under the Travel Business Agreements except those which are still outstanding as at completion of the Subscription Agreement and the Disposal Agreement as Fourseas.com has recorded deficit on its net asset value and remained as loss making for the last two years; (iii) the Management Agreement and the Joint Venture Deed ensure the provision of necessary management expertise for the continuous and smooth operations of the SI-IT Business Company after completion of the Subscription Agreement and the Disposal Agreement.

Based on the above, we consider that the special deals regarding the Put Option, Novation Deeds, Loan Assignment, Management Agreement and the Joint Venture Deed are fair and reasonable so far as the Independent Shareholders are concerned and therefore advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the First Extraordinary General Meeting to approve the special deals by way of a poll.

Non-exempted Connected Transaction

Pursuant to the Subscription Agreement, the Guarantees in connection with certain properties in the Disposal Company up to a maximum of HK$125.3 million in aggregate, be released and discharged for SCIT or repaid in full, either at the Completion Date or on or before the date falling 60 days after the Completion Date (the “First Release Date”) or within 30 days after the First Release Date (the “Second Release Date”). The release and discharge of the Guarantees provided by SCIT is in connection with certain of the SCIT Group’s properties to be disposed of under the Disposal Agreement to SCI. No guarantee fee will be given to SCIT for the provision of the Guarantees.

As at the Latest Practicable Date, letters were received from three creditor banks confirming their agreement to the arrangement of the transactions contemplated under the Financial Restructuring Proposal and the release of an aggregate of approximately HK$102.8 million of the Guarantees upon completion of all the necessary documentation. The directors of SCI advised that they did not see any reason that the remaining creditor banks will reject the change of guarantor when the underlying mortgaged properties were transferred from SCIT to SCI.

We consider that SCI to assume and be responsible for and indemnify SCIT for all the liabilities of SCIT as at completion of the Subscription Agreement (other than the Shareholders’ Loan) as a sufficient protection to shareholders of SCIT.

If SCIT shall not be able to release and discharge the Guarantees fully upon completion of the Subscription Agreement, the provision of the Guarantees by SCIT, within either the First Release Date or the Second Release Date as allowed under the Subscription Agreement, will constitute the Non-exempted Connected Transaction. In this respect, it is subject to the announcement requirement and the approval of the Independent Shareholders at the First Extraordinary General Meeting. However, in the event all the release cannot be obtained within 90 days after the Completion Date, a separate approval by the Shareholders for the provision of guarantees to the Disposal Company and its subsidiaries will be required under the Listing Rules.

As the release and discharge of the Guarantees from SCIT aggregated to HK$125.3 million and involves altogether five creditor banks and a significant amount of documentation processing, we consider the extension periods provided through the specifications of the First Release Date and the Second Release Date under the Subscription Agreement to be a reasonable term. We consider the Non-exempted Connected Transaction is intended only to facilitate the Subscription Agreement and therefore would recommend the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolution to be proposed at the First Extraordinary General Meeting to approve the Non-exempted Connected Transaction.

CONCLUSION

Based on the above principal factors and reasons we have considered, we are of the view that the terms of the Financial Restructuring Proposal and the Non-exempted Connected Transaction are fair and reasonable so far as the Independent Shareholders are concerned and the granting of the Whitewash Waiver will not be prejudicial to the interests of the Independent Shareholders. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the First Extraordinary General Meeting to approve the Financial Restructuring Proposal (including the special deals), which involves (i) the Share Consolidation; (ii) the Subscription Agreement; (iii) the Disposal Agreement; (iv) the Management Agreement; and (v) the Joint Venture Deed; the granting of the Whitewash Waiver and the Non-exempted Connected Transaction by way of a poll.

Yours faithfully,
KGI Asia Limited
Michael Sze
Director

Your faithfully,
Baron Capital Limited
Thomas Chiu *Director*
Monica Lin *Director*

1. SHARE CAPITAL

The authorised and issued share capital of SCIT as at the Latest Practicable Date were, and following completion of the Financial Restructuring Proposal will be as follows:

		HK$
Authorised:		
10,000,000,000	shares of HK$0.1 each as at 31st December, 2001	1,000,000,000.00
10,000,000,000	Existing Shares as at the Latest Practicable Date	100,000,000.00
5,000,000,000	New Shares upon the Capital Reorganisation and Share Consolidation becoming effective	100,000,000.00
Issued and fully paid:		
680,529,805	shares of HK$0.1 each in issue as at 31st December, 2001	68,052,980.50
680,529,805	Existing Shares as at the Latest Practicable Date	6,805,298.05
340,264,902	New Shares in issue following the Capital Reorganisation and Share Consolidation becoming effective	6,805,298.04
3,000,000,000	Subscription Shares	60,000,000.00
3,340,264,902	New Shares in issue upon completion of the Financial Restructuring Proposal	66,805,298.04

All the issued Existing Shares rank pari passu in all respects including all rights as to dividends, voting and return of capital. All the New Shares to be in issue following completion of the Financial Restructuring Proposal will rank pari passu in all respects with each other including all rights as to dividends, voting and return of capital.

SCIT has no options, warrants and conversion rights convertible into shares. No share or loan capital of SCIT has been issued or is proposed to be issued for cash or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

The Existing Shares are listed on the Stock Exchange. No part of the securities of SCIT is listed or dealt in, nor is listing or permission to deal in the securities of SCIT being or proposed to be sought, on any other stock exchange.

2. SUMMARY OF CONSOLIDATED PROFIT AND LOSS ACCOUNTS

The consolidated results of the SCIT Group for the last five financial years, as extracted from the audited financial statements of the SCIT Group and restated as appropriate, are summarised below:

	2001	2000	1999	1998	1997
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
Continuing operations	112,572	63,603	5,745	9,002	12,560
Discontinued operations	—	—	—	20,001	122,093
	112,572	63,603	5,745	29,003	134,653
Operating loss	(90,638)	(30,106)	(26,205)	(73,474)	(235,038)
Share of losses of associates	(15,332)	(19,033)	(27,500)	(223)	(232)
Loss before taxation	(105,970)	(49,139)	(53,705)	(73,697)	(235,270)
Taxation credit/(charge)	(106)	—	1,034	—	—
Loss after taxation	(106,076)	(49,139)	(52,671)	(73,697)	(235,270)
Minority interests	3,260	1,048	883	271	(42)
Loss attributable to Shareholders	(102,816)	(48,091)	(51,788)	(73,426)	(235,312)
Dividends	—	—	—	—	—
Loss per Share	HK$(0.15)	HK$(0.07)	HK$(0.08)	HK$(0.11)	HK$(1.14)

3. AUDITED FINANCIAL STATEMENTS

The following financial information is extracted from pages 19 to 71 of the annual report of SCIT for the year ended 31st December, 2001.

Consolidated Income Statement
For the year ended 31st December, 2001
(Expressed in Hong Kong dollars)

	Note	2001 *$'000*	2000 *$'000* (Restated - Notes 2 & 37)
Turnover	4	112,572	63,603
Cost of sales		(88,603)	(54,835)
Gross profit		23,969	8,768
Other revenue	4	11,479	11,696
Distribution and selling expenses		(13,565)	(6,759)
General and administrative expenses		(40,852)	(29,465)
Deficit on revaluation of investment properties	13	(3,400)	(8,850)
Provision for impairment in value of long-term investments		(7,214)	(4,000)
Provision for impairment in value of land pending development		(9,550)	(462)
Impairment of goodwill		(625)	(10,150)
Operating loss		(39,758)	(39,222)
Finance costs		(23,203)	(25,983)
Share of losses of associates		(15,332)	(19,033)
Provision against advances to an associate		(28,543)	—
Gain on disposal of an associate	5	833	31,099
Gain on disposal of subsidiaries		33	4,000
Loss before taxation	6	(105,970)	(49,139)
Taxation	8	(106)	—
Loss after taxation		(106,076)	(49,139)
Minority interests		3,260	1,048
Loss attributable to shareholders	9	(102,816)	(48,091)
Accumulated deficit, beginning of year			
- As previously reported		(421,464)	(383,523)
- Prior year adjustment	2	(10,150)	—
- As restated		(431,614)	(383,523)

	Note	2001 $'000	2000 $'000 (Restated - Notes 2 & 37)
Transfer to statutory reserves	28	(15)	—
Accumulated deficit, end of year	10	(534,445)	(431,614)
Loss per share	11	(15 cents)	(7 cents)
Exchange differences on translation of the financial statements of subsidiaries not denominated in Hong Kong dollars	28	455	161
Loss attributable to shareholders		(102,816)	(48,091)
		(102,361)	(47,930)
Goodwill eliminated directly against reserves	28	—	(5,214)
		(102,361)	(53,144)
Cumulative effect of changes in accounting policy		—	(10,150)

Balance Sheets
As at 31st December, 2001
(Expressed in Hong Kong dollars)

		Consolidated		Company	
		2001	**2000**	**2001**	**2000**
	Note	*$'000*	*$'000*	*$'000*	*$'000*
			(Restated - Notes 2 & 37)		
NON-CURRENT ASSETS					
Fixed assets	12	10,637	6,277	—	—
Investment properties	13	130,430	34,200	—	—
Investment in subsidiaries	14	—	—	27,113	265,274
Investment in associates	15	249,102	324,295	—	—
Long-term investments	16	—	4,023	—	—
Properties under development	17	17,882	17,874	—	—
Land pending development	18	50,276	59,826	—	—
Total non-current assets		458,327	446,495	27,113	265,274
CURRENT ASSETS					
Inventories	19	11,769	5,847	—	—
Trade receivables	20	9,904	8,041	—	—
Properties held for sale	21	46,237	28,605	—	—
Due from a related company	3	2,580	—	—	—
Due from an associate	3	2,000	—	—	—
Prepayments and deposits		9,954	8,459	—	—
Other receivables		9,736	6,681	—	—
Cash and bank deposits		17,290	17,930	5	6
Total current assets		109,470	75,563	5	6
CURRENT LIABILITIES					
Short-term bank borrowings	22	(25,921)	(3,994)	—	—
Long-term bank loans, current portion	23	(14,051)	(7,871)	—	(3,333)
Trade payables	24	(7,877)	(3,527)	—	—
Accruals and deposits received		(44,365)	(33,286)	(604)	(213)
Due to a fellow subsidiary	3	(8,700)	—	—	—
Due to an associate	3	(4,636)	—	—	—
Taxation payable		(50)	—	—	—
Total current liabilities		(105,600)	(48,678)	(604)	(3,546)
Net current assets (liabilities)		3,870	26,885	(599)	(3,540)
Total assets less current liabilities		462,197	473,380	26,514	261,734

	Note	Consolidated 2001 $'000	Consolidated 2000 $'000 (Restated - Notes 2 & 37)	Company 2001 $'000	Company 2000 $'000
NON-CURRENT LIABILITIES					
Due to an intermediate holding company	3	(296,835)	(293,223)	—	—
Long-term bank loans	23	(82,715)	(6,265)	—	(2,500)
Total non-current liabilities		(379,550)	(299,488)	—	(2,500)
MINORITY INTERESTS		(56,133)	(52,645)	—	—
Net assets		26,514	121,247	26,514	259,234
CAPITAL AND RESERVES					
Share capital	25	68,053	68,053	68,053	68,053
Reserves	28	492,906	484,808	276,724	276,724
Accumulated deficit	10	(534,445)	(431,614)	(318,263)	(85,543)
Shareholders' equity		26,514	121,247	26,514	259,234

Approved by the Board of Directors on 24th April, 2002 and signed on behalf of the Board by:

CHEUNG CHOI NGOR, CHRISTINA
Director

CHEUNG WING HUNG, VINCENT
Director

Consolidated Statement of Cash Flows

For the year ended 31st December, 2001

(Expressed in Hong Kong dollars)

	Note	2001 $'000	2000 $'000 (Restated - Notes 2 & 37)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	29.a	(17,564)	(35,190)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		6,981	8,116
Interest paid		(23,203)	(25,983)
		(16,222)	(17,867)
TAXATION			
Mainland China income tax paid		(56)	—
INVESTING ACTIVITIES			
Additions of fixed assets		(7,484)	(6,435)
Proceeds from disposal of fixed assets		—	1,979
Additions of long-term investments		(3,191)	—
Additions of investment properties		—	(270)
Net cash outflow from acquisition of subsidiaries	29.b	(15,522)	(10,576)
Net cash (outflow) inflow from disposal of subsidiaries	29.c	(992)	4,000
Acquisition of additional interest in an associate		—	(29,428)
Proceeds from disposal of interest in an associate		7,775	27,208
Decrease (Increase) in advances to associates		31,497	(14,743)
		12,083	(28,265)
NET CASH OUTFLOW BEFORE FINANCING ACTIVITIES		(21,759)	(81,322)

	Note	2001 $'000	2000 $'000 (Restated - Notes 2 & 37)
FINANCING ACTIVITIES	29.d		
New long-term bank loans		1,827	—
Repayment of long-term bank loans		(19,188)	(9,191)
New short-term bank loan		8,000	—
Repayment of capital element of finance lease obligations		—	(51)
Increase in amount due to an intermediate holding company		3,612	92,825
Increase in amount due to an associate		4,636	—
Capital contributions from minority shareholders of subsidiaries		7,670	8,207
		6,557	91,790
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(15,202)	10,468
CASH AND CASH EQUIVALENTS, beginning of year		13,936	3,141
Effect of foreign exchange rate changes		635	327
CASH AND CASH EQUIVALENTS, end of year	29.f	(631)	13,936

Notes to the Financial Statements

(Amounts expressed in Hong Kong dollars unless otherwise stated)

1. ORGANISATION AND OPERATIONS

South China Information and Technology Limited ("the Company") is incorporated in the Cayman Islands with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its subsidiaries are principally engaged in information and technology related businesses, implementation and marketing of software applications, property development and investment.

2. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Principal accounting policies are summarised below:

a. **Basis of presentation**

The financial statements as at and for the year ended 31st December, 2001 have been prepared on the going concern basis which assumes the Group will be able to meet its financial obligations when they fall due.

For the year ended 31st December, 2001, the Group reported a loss attributable to shareholders of approximately $102.8 million and had a net cash outflow from operating activities of approximately $17.6 million.

As at 31st December, 2001, the Group had outstanding short-term bank loans of approximately $25.9 million comprising $17.9 million overdrafts and $8 million revolving short-term loan. In addition, the Group had outstanding long-term bank loans of approximately $96.8 million of which approximately $14.1 million is repayable within one year and $82.7 million is repayable in two to ten years. Total outstanding bank loans of the Group amounted to approximately $122.7 million. All the bank borrowings are secured by the properties held by the Group. In addition, an associate had outstanding bank loans of approximately $25 million repayable in the following twelve months. The Company has provided a guarantee of $174 million to the bank for the associate's bank facilities which amount in total to $580 million. The bank facilities of the associate are secured by an investment property whose open market value, as determined by independent qualified valuers, approximated $1,350 million as at 31st December, 2001.

Taking into account the facts that the outstanding bank borrowings of the Group are secured by the Group's properties and financial support is provided by an intermediate holding company to support the Group's funding needs as and when required, the Directors consider that the Group will have sufficient working capital for the ensuing twelve months. Accordingly, the financial statements have been prepared on the going concern basis.

b. **Adoption of new/revised Statements of Standard Accounting Practice**

Effective 1st January, 2001, the Group has adopted, for the first time, the following SSAPs issued by the Hong Kong Society of Accountants:

SSAP 9 (revised):	Events after the balance sheet date
SSAP 14 (revised):	Leases
SSAP 26:	Segment reporting
SSAP 28:	Provisions, contingent liabilities and contingent assets
SSAP 29:	Intangible assets
SSAP 30:	Business combinations
SSAP 31:	Impairment of assets
SSAP 32:	Consolidated financial statements and accounting for investments in subsidiaries

The adoption of the above new/revised SSAPs had no significant impact on the Group's financial statements, other than as described below:

i. *SSAP 26 - Segment reporting*

Segment information of the Group has been disclosed in Note 30 to the financial statements.

ii. *SSAP 30 - Business combinations*

Prior to 1st January, 2001, goodwill was eliminated against available reserves when it arose. With the adoption of SSAP 30, the Group has adopted the transitional provisions prescribed therein. Goodwill which arose prior to 1st January, 2001 will continue to be held in reserves and no restatement has been made. However, any impairment arising on such goodwill is recognised in the income statement in accordance with the newly issued SSAP 31 "Impairment of assets". Goodwill arising after 1st January, 2001 is capitalised as an asset and is amortised to the income statement on a straight-line basis over its estimated economic life. Goodwill is stated at cost less accumulated amortisation and any impairment loss. Negative goodwill arising after 1st January, 2001 is presented as a deduction from the assets in the same balance sheet classification as goodwill and is recognised in the income statement in accordance with accounting policy set out in Note 2.e.

The Group has treated the recognition of such impairment loss as a change in accounting policy in accordance with SSAP 2 since the Group has not previously followed a policy of recognising impairment losses in respect of goodwill written off against reserves. In this connection, the Group has performed an assessment of the fair value of goodwill that had previously been eliminated against reserves as at 31st December, 2000. The Group has thus retrospectively restated its previously reported net losses for impairment losses of goodwill arising from the acquisitions of subsidiaries in prior years. As a result, the accumulated deficit as at 31st December, 2000 and the Group's loss attributable to shareholders for the year ended 31st December, 2000 were increased by $10,150,000.

In addition to the adoption of the above standards, the Group has adopted the consequential changes made to SSAP 10 "Accounting for investments in associates", SSAP 17 "Property, plant and equipment", SSAP 18 "Revenue" and SSAP 21 "Accounting for interests in joint ventures". The Directors consider that the consequential changes made to the above SSAPs do not have a material impact on the financial statements of the Group.

The 2000 comparative figures presented herein have incorporated the effect of adjustments, where applicable, resulting from the adoption of the new SSAPs.

c. **Basis of measurement**

The financial statements have been prepared on historical cost basis, as modified by the revaluation of investment properties.

d. **Basis of consolidation**

The consolidated financial statements include the accounts of the Group, together with the Group's share of post-acquisition results and reserves of its associates under the equity method of accounting. The results of subsidiaries and associates acquired or disposed of during the year are recorded from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

e. **Goodwill/Negative goodwill**

Goodwill arises where the fair value of the consideration given exceeds the Group's share of the aggregate fair values of the identifiable net assets acquired. Prior to 1st January, 2001, goodwill was eliminated against available reserves when it arose. Goodwill arising after 1st January, 2001 is recognised as an asset in the balance sheet and is amortised on a straight-line basis over its estimated economic life. The carrying value of goodwill is assessed periodically or when factors indicating an impairment are present. Any impairment of goodwill is recognised as an expense in the period in which the impairment occurs.

Any excess, as at the date of the transaction, of the Group's interest in the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition, is recognised as negative goodwill.

Negative goodwill which arose prior to 1st January, 2001 is held in reserves (see Note 2.b.ii). Negative goodwill arising after 1st January, 2001 is presented as a deduction from assets in the same balance sheet classification as goodwill. Negative goodwill is recognised in the income statement as follows:

- to the extent that negative goodwill relates to expected future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, that portion of negative goodwill is recognised as income when the future losses and expenses are recognised.

- the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets.

- the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

f. **Subsidiaries**

A subsidiary is a company over which the Group can exercise control, which is normally evidenced when the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. In the Company's financial statements, investment in subsidiaries is stated at cost less any impairment loss, while income from subsidiaries is recorded to the extent of dividends received and receivable.

g. **Associates**

An associate is a company in which the Group has significant influence, but not control or joint control, over its financial and operating policy decisions.

In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and is adjusted thereafter to recognise the Group's share of the post-acquisition results of the associates, distributions received from associates, other necessary alterations in the Group's proportionate interest in associates arising from changes in the equity of associates that have not been included in the income statement of the associates, amortisation of goodwill acquired and any impairment loss. The Group's share of post-acquisition results of associates is included in the consolidated income statement.

h. **Equity joint ventures**

An equity joint venture is a joint venture in which the partners' capital contributions and profit sharing ratios are defined in the joint venture agreement. The Group's investments in equity joint ventures are accounted for as subsidiaries if the Group is able to govern and control the financial and operating policies of the joint venture. If the Group can only exercise significant influence over the equity joint venture, such joint venture is accounted for as an associate.

i. **Long-term investments**

Long-term investments, intended to be held on a long-term basis, are stated at cost less provision for impairment in value, as determined by the Directors, on an individual investment basis. Income from long-term investments is accounted for to the extent of dividends received or receivable.

j. **Fixed assets and depreciation**

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment loss. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs are expensed when incurred. Depreciation is provided on a straight-line basis to write off the cost less estimated residual value of each asset over its estimated useful life. The annual rates of depreciation are as follows:

Buildings	2% to 5%
Leasehold improvements	20%
Furniture and fixtures, office equipment and motor vehicles	20% to 33.3%

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and period of depreciation are consistent with the expected pattern of economic benefits from fixed assets.

Gains and losses on disposals of fixed assets are recognised in the income statement based on the net disposal proceeds less the carrying amount of the assets.

k. **Investment properties**

Investment properties are leasehold interests in land and buildings in respect of which construction and development work have been completed and which are held for their long-term investment potential. These properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. All changes in the value of investment properties are dealt with in the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is charged to the income statement. When an investment property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the income statement is determined based on the net disposal proceeds less the original cost.

No depreciation is provided for investment properties unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

l. **Properties under development**

Properties under development include interests in land and buildings under development which are intended for sale upon completion. Properties under development are included in non-current assets and are stated at the lower of cost and net realisable value. Costs include land cost, development expenditure, professional fees, interest capitalised and other expenses incurred in connection with the development, net of incidental rental income. Net realisable value is based on estimated selling price in the ordinary course of business as determined by the Directors with reference to the prevailing market conditions, less further costs expected to be incurred to completion and selling and marketing expenses.

No depreciation is provided on properties under development.

m. **Land pending development**

Land pending development includes all land acquired pending a definite plan to be developed for sale or long-term investment. It is stated at cost less provision for any impairment in value. Land cost includes land premium cost, site clearance costs and other directly attributable costs of bringing the land to a condition suitable for development. When the intention is clear and development has commenced, land to be developed for sale will be classified as properties under development.

n. **Intangible assets**

Intangible assets, representing acquisition costs of software licenses, are stated at cost and amortised on a straight-line basis over a period of 5 years. The Company's Directors review and evaluate, taking into consideration current results and future prospects, the carrying value of intangible assets periodically and provision is made for any impairment in value where appropriate.

o. **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials computed using the weighted average method of costing and, in the case of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is calculated based on estimated selling prices, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

p. **Properties held for sale**

Properties held for sale are included in current assets and are stated at the lower of cost and net realisable value. Cost includes land and building cost and other expenses incurred to bring the properties to their existing state. Net realisable value is the estimated price at which a property can be realised less related expenses.

q. **Impairment of assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount, is recognised in the income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of the disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the income statement.

r. **Provisions and contingencies**

A provision is recognised when there is a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

s. **Turnover and revenue recognition**

Turnover represents (i) sales of software and hardware and provision of system integration services; (ii) income from sales of properties; and (iii) rental income from leasing of properties.

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

(i) Income from sales of software and hardware and provision of system integration services is recognised when the merchandise is delivered and the related integration services are rendered.

(ii) Income from sales of properties - revenue from the sale of properties is recognised when a legally binding agreement has been executed with the profit recognised restricted to the amount of instalments received.

If a purchaser defaults in the payment of instalments and the Group exercises its right to terminate the sale, the revenue and the related profit previously recognised are reversed and the instalments received and forfeited are credited to the income statement.

(iii) Rental income - rental income is recognised when rental becomes due and receivable.

(iv) Interest income - interest income is recognised on a time proportion basis that takes into account the effective yield on the assets.

(v) Management fees - management fees are recognised when the services are rendered.

t. **Taxation**

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

Deferred taxation is provided under the liability method in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except when it is considered that no liability will arise in the foreseeable future. Deferred tax assets are not recognised unless the related benefits are expected to crystallise in the foreseeable future.

u. **Operating leases**

Operating leases represent those leases under which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

v. **Employee retirement benefits**

Costs of employee retirement benefits are recognised as an expense in the period in which they are incurred.

w. **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial period of time to bring to its intended use or sale are capitalised as part of the cost of the asset at rate based on the actual cost of specific borrowings. All other borrowing costs are recognised as an expense in the period in which they are incurred.

x. **Foreign currency translation**

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("the functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date; income and expense items are translated into Hong Kong dollars at the applicable average exchange rates during the year. Exchange differences arising from such translation are dealt with as movements in cumulative translation adjustments.

y. **Subsequent events**

Post-year-end events that provide additional information about financial position at the balance sheet date or those that indicate the going concern assumption is not appropriate, are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

z. **Use of estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in Hong Kong requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

a. Significant transactions with related parties are summarised below:

	2001	**2000**
	$'000	*$'000*
Interest expense on amount due to an intermediate holding company	19,597	23,731
Interest expense on amount due to an associate	283	—
Interest income from advances to associates	6,775	8,116
Management fees charged by an intermediate holding company	4,000	4,000
Management fees from associates	2,000	2,000
Disposal of fixed assets at net book value to a fellow subsidiary	—	2,138
Rental charged by a fellow subsidiary	—	1,771

b. Outstanding balances with related parties are summarised below:

	2001	**2000**	**Maximum balance outstanding during the year**
	$'000	*$'000*	*$'000*
Due from a related company (i)	2,580	—	2,580
Due from an associate	2,000	—	2,000
Due to a fellow subsidiary	8,700	—	
Due to an associate	4,636	—	
Due to an intermediate holding company	296,835	293,223	

Note

(i) The balance represents the amount due from Anwell Profits Limited ("Anwell"), a company incorporated in the British Virgin Islands in which Mr. Ng Hung Sang, Robert ("Mr. Robert Ng") and Mr. Ng Yuk Fung, Peter ("Mr. Peter Ng") hold 60% and 40% interests, respectively. Mr. Robert Ng is the Chairman of the Company and Mr. Peter Ng is his son.

The balance due from a related company represents the consideration receivable for the disposal of three subsidiaries to Anwell. The balance is unsecured, non-interest bearing and was repaid after the year-end.

The balance due from an associate represents the management fees receivable. The balance is unsecured, non-interest bearing and has no pre-determined repayment terms.

The balance due to a fellow subsidiary represents a deposit received.

The balance due to an associate as at 31st December, 2001 represents balance with Hong Kong Four Seas Tours Limited which is unsecured, non-interest bearing and has no pre-determined repayment terms. During the year, an amount due to Four Seas Corporate Services Limited, an associate, was unsecured, bore interest at Hong Kong prime lending rate plus 2% per annum and this balance has been repaid as at year-end.

The balance due to an intermediate holding company represents advances made to the Group in order to finance its operations. The balance is unsecured, not repayable until the Group is financially capable to do so and non-interest bearing except for an amount of approximately $296,258,000 (2000 - $252,043,000) which bears interest at Hong Kong prime lending rate per annum.

c. An intermediate holding company has provided a guarantee of approximately $23,000,000 (2000 - $10,000,000) to secure the banking facilities granted to the Group (Note 34).

d. The Group has provided a guarantee of approximately $174,000,000 (2000 - $165,989,000) to secure the banking facilities granted to an associate (Note 32).

e. During the year, the Group disposed of its interests in three subsidiaries namely Fortunefeel Limited, Gainful Spark Limited and Uniprosper Limited to Anwell for a total consideration of $2,580,000 and recognised a gain on disposal of approximately $33,000. These subsidiaries are principally engaged in information and technology related businesses.

f. The intermediate holding company has undertaken to provide continuing financial support and make available adequate financial resources to support the Group's funding needs as and when required.

4. TURNOVER AND REVENUE

Analysis of turnover and revenue is as follows:

	2001	**2000**
	$'000	*$'000*
Sales revenue from information and technology related businesses:		
— sales of software and hardware	51,743	42,838
— service income from system integration services	57,207	16,127
— others	—	949
Proceeds from sales of properties	1,268	3,014
Rental income	2,200	675
Others	154	—
Total turnover	112,572	63,603
Interest income	6,981	8,116
Management fee income *(Note 3.a)*	2,000	2,000
Other income	2,498	1,580
Total revenue	124,051	75,299

5. GAIN ON DISPOSAL OF AN ASSOCIATE

On 18th June, 2001, the Group, Fourseas.com Limited ("FS"), a then associate, and Giant Glory Assets Limited ("GG") entered into certain agreements to effect the financial restructuring of FS ("the financial restructuring"). The financial restructuring included (i) the subscription of new shares of FS by GG, (ii) the acquisition of all the issued share capital of certain property holding companies and the acquisition of 49% of the issued share capital of certain travel business companies ("TBC") of FS by the Group, and (iii) arrangements for management services to be provided by the Group to TBC after the financial restructuring. The completion date of the financial restructuring was 3rd September, 2001.

The consideration for the new shares of FS subscribed for by GG was $70 million, which was applied to repay the outstanding loans advanced by the Group to FS at the completion date.

In connection with the subscription of new shares in FS by GG, the Group's interest in FS was diluted from approximately 44.5% to 4.4%. At the same time, the Group disposed of its remaining 4.4% interest in FS for approximately $9,955,000. On the completion date, the Group acquired all the issued share capital of certain property holding companies and 49% of the issued share capital of certain TBC for $15 million. In this connection, the Group recognised a net gain on disposal of an associate of approximately $833,000.

As part of the financial restructuring, the Group was appointed by TBC as the manager to provide all management services to TBC for a term of six years commencing from the completion date. As consideration for the provision of the management services by the Group, TBC is required to pay the Group an annual management fee of $2 million for the first 12 months and thereafter the fee is to be increased annually at a rate equivalent to the increase in Composite CPI plus an increase equivalent to 0.5% of the increase in trading turnover of the TBC.

In addition, the Group shall be solely responsible for the operating losses of TBC incurred during the 12 months from the completion date.

Moreover, the Group granted a put option to FS to sell the remaining 51% equity interest in TBC to the Group within 365 days from the completion date for $8 million. As at 31st December, 2001, FS had not exercised the put option (see Note 32).

6. LOSS BEFORE TAXATION

Loss before taxation in the consolidated income statement was determined after charging or crediting the following items:

	2001	2000
	$'000	*$'000*
After charging:		
Cost of merchandise sold (excluding provision for slow-moving and obsolete inventories)	86,758	54,835
Interest on		
— bank overdrafts and loans wholly repayable within five years	1,348	2,185
— bank loans repayable beyond five years	1,867	—
— amount due to an intermediate holding company *(Note 3.a)*	19,597	23,731
— amount due to an associate *(Note 3.a)*	283	—
— others	108	67
Operating lease rental of premises charged by		
— third parties	3,691	521
— a fellow subsidiary *(Note 3.a)*	—	1,771
Net loss on disposal of fixed assets	84	189
Depreciation of fixed assets	2,244	1,153
Less: amount capitalised as land pending development	—	(110)
	2,244	1,043
Net exchange loss	—	88
Management fees charged by an intermediate holding company *(Note 3.a)*	4,000	4,000
Staff costs (including directors' emoluments)	17,094	13,071
Impairment of intangible assets	2,653	—
Provision for slow-moving and obsolete inventories	1,845	—
Auditors' remuneration	550	400
After crediting:		
Interest income from		
— bank deposits	206	—
— advances to associates *(Note 3.a)*	6,775	8,116
Management fees *(Note 3.a)*	2,000	2,000
Net exchange gain	5	—

7. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

a. Details of directors' emoluments are:

	2001	2000
	$'000	*$'000*
Fees for executive directors	49	40
Fees for non-executive directors	20	20
Other emoluments for executive directors		
— Basic salaries and allowances	1,248	—
— Contribution to pension scheme	8	—
Other emoluments for non-executive directors	—	—
	1,325	60

During the year, no directors waived any emoluments and no emolument of the directors was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

Analysis of directors' emoluments by number of directors and emolument range is as follows:

	2001	2000
Executive directors		
— Nil to $1,000,000	4	6
— $1,000,001 to $1,500,000	1	—
Non-executive directors		
— Nil to $1,000,000	2	2

b. Details of the emoluments payable to the five highest paid individuals (including directors and other employees) are as follows:

	2001	2000
	$'000	*$'000*
Basic salaries and allowances	3,537	1,817
Contributions to pension scheme	65	22
	3,602	1,839

The emoluments paid to the five highest paid individuals included one (2000 - Nil) executive director of the company, details of whose emoluments have been included in Note 7.a above.

Analysis of five highest paid individuals by number of individuals and emolument range is as follows:

	2001	2000
Nil to $1,000,000	4	5
$1,000,001 to $1,500,000	1	—

During the year, no emolument of the five highest paid individuals was incurred as inducement to join or upon joining the Group or as compensation for loss of office.

8. TAXATION

Taxation comprised:

	2001	2000
	$'000	*$'000*
Company and subsidiaries:		
Provision for current taxation		
— Hong Kong profits tax	—	—
— Mainland China enterprise income tax	106	—
	106	—
Associates:		
Provision for current taxation		
— Hong Kong profits tax	—	—
	106	—

a. **Hong Kong profits tax**

No Hong Kong profits tax has been provided as companies within the Group have no estimated assessable profit in Hong Kong during the year.

b. **Enterprise income tax**

The People's Republic of China ("Mainland China") enterprise income tax has been provided by the subsidiaries with operations in Mainland China at the applicable rates on their assessable profits.

As at 31st December, 2001, there was no significant unprovided deferred taxation.

9. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The consolidated loss attributable to shareholders includes a loss of approximately $232,720,000 (2000 - $1,694,000) dealt with in the financial statements of the Company.

10. ACCUMULATED DEFICIT

Accumulated deficit comprises:

	2001	2000
	$'000	*$'000*
		(Restated- Notes 2 & 37)
Company and subsidiaries	(525,908)	(401,229)
Associates	(8,537)	(30,385)
	(534,445)	(431,614)

11. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately $102,816,000 (2000 - $48,091,000) and on the weighted average number of approximately 680,529,805 shares (2000 - 680,529,273 shares) in issue during the year.

Diluted loss per share is not shown as there is no dilutive effect in either year.

12. FIXED ASSETS

a. Movements of fixed assets (consolidated) are:

	2001				2000
	Buildings	**Leasehold improvements**	**Furniture and fixtures, office equipment and motor vehicles**	**Total**	**Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Cost					
Beginning of year	—	1,119	6,945	8,064	3,695
Additions	2,698	75	4,711	7,484	6,435
Attributable to acquisition of subsidiaries	—	—	279	279	437
Attributable to disposal of subsidiaries	—	—	(1,253)	(1,253)	—
Disposal	—	—	(85)	(85)	(2,503)
End of year	2,698	1,194	10,597	14,489	8,064
Accumulated depreciation					
Beginning of year	—	166	1,621	1,787	969
Provision for the year	99	181	1,964	2,244	1,153
Attributable to disposal of subsidiaries	—	—	(178)	(178)	—
Disposal	—	—	(1)	(1)	(335)
End of year	99	347	3,406	3,852	1,787
Net book value					
End of year	2,599	847	7,191	10,637	6,277
Beginning of year	—	953	5,324	6,277	2,726

b. Details of buildings:

The geographical locations and tenure of title are as follows:

	2001	2000
	$'000	*$'000*
Mainland China		
— medium term leases	2,599	—

The buildings are mortgaged as collateral for the Group's banking facilities *(see Note 34)*.

13. INVESTMENT PROPERTIES

Movements of investment properties (consolidated) were:

	2001	2000
	$'000	*$'000*
Beginning of year	34,200	42,780
Attributable to acquisition of subsidiaries	99,630	—
Addition during the year	—	270
Deficit on revaluation	(3,400)	(8,850)
End of year	130,430	34,200

Investment properties are stated at open market value as at 31st December, 2001 as determined by FPD Savills (Hong Kong) Limited, independent qualified valuers. Certain investment properties with a net book value of approximately $127,530,000 (2000 - $34,200,000) are mortgaged as collateral for the Group's banking facilities (see Note 34).

The geographical locations and tenure of investment properties are as follows:

	2001	2000
	$'000	*$'000*
Hong Kong		
— medium-term leases	93,180	30,200
— long-term leases	37,250	4,000
	130,430	34,200

14. INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries comprised:

	2001	2000
	$'000	*$'000*
Unlisted shares, at cost	94,499	94,499
Advances to subsidiaries	244,227	251,034
	338,726	345,533
Less: Provision for impairment in value	(311,613)	(80,259)
	27,113	265,274

The outstanding balances with subsidiaries are unsecured, non-interest bearing and are not repayable within the next twelve months.

The underlying value of investment in subsidiaries is, in the opinion of the Company's directors, not less than the carrying value as at 31st December, 2001.

As at 31st December, 2001, the Company has given guarantees of approximately $124,423,000 (2000 - $12,645,000) to secure banking facilities of certain subsidiaries (Note 32).

Details of the principal subsidiaries as at 31st December, 2001, all held indirectly by the Company, are as follows:

Name of company	Place of incorporation and operations	Issued and fully paid share capital/ paid-up capital	Percentage of equity interest held	Principal activities
Canada Oily Investment Limited	Hong Kong	$10,000	51%	Investment holding
Dongguan Taihe Garden Construction Co. Ltd.*	Mainland China	Rmb59,955,699	60%	Property development
Eastand Investments Limited	Hong Kong	$2	100%	Investment holding
Lion City Real Estate Limited	Hong Kong	$10,000	60%	Investment holding
South China Information and Technology (China) Limited	Hong Kong	$2	100%	Property holding
Newbase Investments Limited	Hong Kong	$2	100%	Property holding
Qing Dao Mandarin Dragon Real Estate Development Co. Ltd.*	Mainland China	Rmb11,336,835	100%	Property development
Phipnic Investments Limited	Hong Kong	$2	100%	Property holding
South China Strategic Limited	Hong Kong	$308,593,789	100%	Investment holding
South China Strategic Property Development Limited	Hong Kong	$5,000,000	100%	Investment holding
Tsuen Wan Shing On Estate Company Limited	Hong Kong	$400,000	100%	Property holding

Name of company	Place of incorporation and operations	Issued and fully paid share capital/ paid-up capital	Percentage of equity interest held	Principal activities
Universal Yield Ltd.	British Virgin Islands	US$1	100%	Investment holding
Wellscope Investments Limited	Hong Kong	$10,000	60%	Investment holding
Four Seas Travel (Holdings) Limited	Hong Kong	$20	100%	Investment holding
Everspread Development Limited	Hong Kong	$10,000	100%	Property holding
First City Limited	Hong Kong	$10,000	100%	Property holding
Glorious Dragon Investments Limited	Hong Kong	$2	100%	Property holding
Four Seas Capital Limited	Hong Kong	$2	100%	Provision of finance to group companies
Bondrobe Enterprises Limited	British Virgin Islands	US$1	100%	Investment holding
Global Trinity Properties Limited	Hong Kong	$2	100%	Property holding
Kingstep Limited	Hong Kong	$10,000	100%	Property holding
Multilink Continental Limited	Hong Kong	$2	100%	Property holding
Paraford Investment Limited	Hong Kong	$2	100%	Property holding
Pioneer Faith Development Limited	Hong Kong	$10,000	100%	Property holding
Right Trinity Properties Limited	Hong Kong	$2	100%	Property holding
Power Sound Development Limited	Hong Kong	$10,000	100%	Property holding
Tamon Development Limited	Hong Kong	$10,000	100%	Property holding
Wisetime Development Limited	Hong Kong	$2	100%	Property holding
Unigainful Limited	Hong Kong	$2	100%	Property holding
Wonderful Regent Limited	Hong Kong	$2	100%	Property holding
Full Guests Hotel Investment Limited	Hong Kong	$10,000	100%	Property holding
Thousand Property Investments Limited	Hong Kong	$2	100%	Property holding
Shanghai Fudan and South China Information System Co. Ltd.*	Mainland China	Rmb10,000,000	67%	Information and Technology related business
Shanghai Zhongteng Information Network Co. Ltd.*	Mainland China	Rmb4,600,000	60%	Information and Technology related business
Shanghai Hitti Information Technology Co. Ltd.*	Mainland China	Rmb3,100,000	60%	Information and Technology related business
South China Skytech Co. Ltd.*	Mainland China	Rmb6,000,000	66.7%	Information and Technology related business
Chongqing Incyber Opt. Inf. Sci. & Tech. Co. Ltd.*	Mainland China	Rmb3,500,000	65%	Information and Technology related business
South China Zenith Information Technology Co. Ltd.*	Mainland China	Rmb7,000,000	60%	Information and Technology related business

Name of company	Place of incorporation and operations	Issued and fully paid share capital/ paid-up capital	Percentage of equity interest held	Principal activities
Chongqing Fortuna Information Technology Co. Ltd.*	Mainland China	Rmb3,330,000	70%	Information and Technology related business
Shenyang Leader Information Technology Co., Ltd.*	Mainland China	Rmb6,000,000	60%	Information and Technology related business
Shenyang Shenglian Electronics Science & Technology Ltd.*	Mainland China	Rmb4,000,000	70%	Information and Technology related business
Shenyang Ruixin Information Technology Co. Ltd.*	Mainland China	Rmb600,000	67%	Information and Technology related business
Shenyang Simware Information Technology Co., Ltd.*	Mainland China	Rmb4,000,000	60%	Information and Technology related business

* *The Company's subsidiaries in Mainland China are sino-foreign equity joint ventures established for periods of 15 to 50 years expiring from 2007 to 2051.*

The above summary lists only the principal subsidiaries of the Company which, in the opinion of the Directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st December, 2001.

15. INVESTMENT IN ASSOCIATES

Investment in associates comprised:

	Consolidated 2001 $'000	Consolidated 2000 $'000
Unlisted shares, at cost	23,283	23,283
Shares listed in Hong Kong, at cost	—	44,629
Goodwill on acquisition, eliminated against reserves	—	(7,628)
	23,283	60,284
Share of undistributed post-acquisition losses	(8,537)	(30,385)
Share of net assets	14,746	29,899
Advances to associates	262,899	294,396
Provision against advances to an associate	(28,543)	—
Advances to associates, net	234,356	294,396
	249,102	324,295
Quoted market value of shares listed in Hong Kong	—	32,183

The underlying value of investment in associates is, in the opinion of the Company's directors, not less than the carrying value as at 31st December, 2001.

Details of advances to associates are as follows:

	2001 $'000	2000 $'000
Firm Wise Investment Limited	247,564	235,694
Shanghai Qiao Ning Real Estate Development Co. Limited	15,335	6,895
Fourseas.com Limited	—	51,807
Advances to associates	262,899	294,396
Provision against advances to an associate	(28,543)	—
Advances to associates, net	234,356	294,396

The amounts advanced to Firm Wise Investment Limited have been used to finance its property development project in Hong Kong. The advances are unsecured, bear interest at 0.5% per annum and are not repayable within the next twelve months.

The amounts advanced to other associates are unsecured, non-interest bearing and not repayable within the next twelve months, except for the advances to Fourseas.com Limited which bore interest at rates ranging from Hong Kong prime lending rate to Hong Kong prime lending rate plus 2% per annum.

Details of the principal associates as at 31st December, 2001, all held indirectly by the Company, are:

Name of company	Place of incorporation and operations	Percentage of equity interest held	Principal activities
Firm Wise Investment Limited ("FWIL") (a)	Hong Kong	30%	Holding of investment property
Shanghai Qiao Ning Real Estate Development Co. Limited ("SQNREDCL") (b)	Mainland China	20.4%	Property development
Hong Kong Four Seas Tours Limited ("HKFST") (c)	Hong Kong	49%	Sales of air tickets and provision of travel-related services

The above summary lists only the principal associates of the Company which, in the opinion of the Directors, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the Directors, result in particulars of excessive length.

Notes:

a. FWIL is principally engaged in the holding of investment property. As at 31st December, 2001, the carrying value of the property, as reflected in its unaudited financial statements, amounted to approximately $1,350,000,000. The Directors have assessed the realisable value of the property, by reference to the market price of comparable buildings and advice from independent qualified valuers, and consider that the fair value of the property as at 31st December, 2001 was not less than its carrying value as at that date.

A summary of the balance sheet as at 31st December, 2001 of FWIL based on its unaudited financial statements and the Group's attributable interests in FWIL is as follows:

	Balance sheet	Group's attributable interest
	$'000	*$'000*
Investment property	1,350,000	405,000
Other assets	7,339	2,202
	1,357,339	407,202
Trade payables and accruals	(54,374)	(16,312)
Short-term bank borrowings	(25,000)	(7,500)
Long-term bank borrowings	(541,508)	(162,453)
Due to shareholders	(885,411)	(265,623)
	(1,506,293)	(451,888)
Net liabilities	(148,954)	(44,686)

b. SQNREDCL is a sino-foreign equity joint venture incorporated in Mainland China for a period of 10 years expiring in 2003. As at 31st December, 2001, the sole asset of SQNREDCL comprised a property under development located in Shanghai, Mainland China, construction of which is in progress. The Directors have assessed the realisability of the property under development by reference to advice from independent qualified valuers, and consider that the net realisable value of the property under development will not be less than its cost.

c. HKFST is one of the TBC acquired from FS pursuant to the financial restructuring of FS (see Note 5).

16. LONG-TERM INVESTMENTS

Long-term investments (consolidated) comprised:

	2001	2000
	$'000	*$'000*
Unlisted investment, at cost	12,214	9,023
Less: Provision for impairment in value	(12,214)	(5,000)
	—	4,023

Details of long-term investments as at 31st December, 2001, held indirectly by the Company, are:

Name of company	**Place of incorporation**	**Percentage of equity interest indirectly held**	**Principal activities**
Multiplier Investment Limited	Hong Kong	41%*	Investment holding
LCT Limited	Mainland China	60%**	Information and technology related business

* The Directors are of the view that the Group has no significant influence in the management of Multiplier Investment Limited. The Group has no representation on the board of directors of Multiplier Investment Limited.

** The Directors are of the view that the Group has no control or significant influence over the financial and operating policies of LCT Limited.

17. PROPERTIES UNDER DEVELOPMENT

The geographical locations and tenure of properties under development (consolidated) are:

	2001	**2000**
	$'000	*$'000*
Hong Kong — medium-term leases	17,882	17,874

The properties under development in Hong Kong are mortgaged as collateral for the Group's banking facilities (see Note 34).

18. LAND PENDING DEVELOPMENT

Land pending development is located in Mainland China. As at 31st December, 2001, land pending development of approximately $6,300,000 (2000 - $6,350,000) was held under land use rights expiring in 2043, whilst the remaining balance of approximately $43,976,000 (2000 - $53,476,000) was related to land for which the Group was in the process of applying for formal land use rights.

19. INVENTORIES

Inventories (consolidated) comprised:

	2001	2000
	$'000	*$'000*
Raw materials	334	729
Work-in-progress	3,240	866
Finished goods	10,600	4,252
	14,174	5,847
Provision for slow-moving and obsolete inventories	(2,405)	—
	11,769	5,847

As at 31st December, 2001, there are no inventories that are stated at net realisable value.

20. TRADE RECEIVABLES

As at 31st December, 2001, an aging analysis of trade receivables, net of provision for doubtful debts (consolidated), is as follows:

	2001	2000
	$'000	*$'000*
Within three months	9,005	6,574
Over three months but within six months	678	1,343
Over six months but within twelve months	221	124
	9,904	8,041

Sale of software and hardware and provision of system integration services are largely on credit except for new customers. Trade deposits are normally required. The credit terms of trade debtors are defined in the respective sales agreements, usually from cash before delivery to 90 days after delivery. Rental in respect of leased properties is payable by the tenants on a monthly basis.

21. PROPERTIES HELD FOR SALE

Properties held for sale are located in Mainland China. As at 31st December, 2001, properties held for sale of approximately $18,000,000 (2000 - Nil) was held under land use rights expiring in 2042, whilst the remaining balance of approximately $28,237,000 (2000 - $28,605,000) was related to land for which the Group was in the process of applying for formal land use rights.

22. SHORT-TERM BANK BORROWINGS

Details of the short-term bank borrowings (secured) (consolidated) are:

	2001	2000
	$'000	*$'000*
Overdrafts	17,921	3,994
Short-term bank loan	8,000	—
	25,921	3,994

Refer to Note 34 for details of the Group's banking facilities.

23. LONG-TERM BANK LOANS

Details of long-term bank loans (secured) are:

	Consolidated		Company	
	2001	2000	2001	2000
	$'000	*$'000*	*$'000*	*$'000*
Amounts repayable within a period				
- not exceeding one year	14,051	7,871	—	3,333
- more than one year but not exceeding two years	15,532	4,472	—	2,500
- more than two years but not exceeding five years	34,898	1,793	—	—
- more than five years	32,285	—	—	—
	96,766	14,136	—	5,833
Less: Amounts repayable within one year included under current liabilities	(14,051)	(7,871)	—	(3,333)
	82,715	6,265	—	2,500

Refer to Note 34 for details of the Group's banking facilities.

24. TRADE PAYABLES

As at 31st December, 2001, an aging analysis of trade payables (consolidated) is as follows:

	2001	2000
	$'000	*$'000*
Within three months	2,702	2,400
Over three months but within six months	228	183
Over six months but within twelve months	3,842	—
Over twelve months	1,105	944
	7,877	3,527

25. SHARE CAPITAL

	2001		2000	
	Number of shares	Nominal value	Number of shares	Nominal value
		$'000		*$'000*
Authorised (Ordinary shares of $0.1 each)	10,000,000,000	1,000,000	10,000,000,000	1,000,000
Issued and fully paid (Ordinary shares of $0.1 each)				
Beginning of the year	680,529,805	68,053	680,527,568	68,053
Issued during the year	—	—	2,237	—
End of year	680,529,805	68,053	680,529,805	68,053

26. SHARE OPTIONS

The Company has a share option scheme under which it may grant options to executive directors and employees of the Group to subscribe for shares in the Company on or before 12th October, 2007 at initial subscription prices of $0.51 to $1.28 per share (subject to adjustments), subject to a maximum of 10% of the issued share capital of the Company, from time to time excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the Company's directors, and will not be less than the higher of the nominal value of the shares and 80% of the average closing price of the shares quoted on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the date of granting of the options.

Movements of share options during the year were as follows:

			Number of shares				
Date of grant	**Exercise period**	**Subscription price per share $**	**Beginning of year**	**Granted during the year**	**Cancelled during the year**	**Exercised during the year**	**End of year**
23rd February, 2000	23rd February, 2001 to 12th October, 2007	1.28	2,770,000	—	270,000	—	2,500,000
14th April, 2000	14th April, 2001 to 12th October, 2007	1.28	500,000	—	—	—	500,000
22nd August, 2000	22nd August, 2001 to 12th October, 2007	0.51	32,000,000	—	—	—	32,000,000
18th September, 2000	18th September, 2001 to 12th October, 2007	0.80	1,950,000	—	—	—	1,950,000
15th February, 2001	15th February, 2002 to 12th October, 2007	0.80	—	300,000	—	—	300,000
19th February, 2001	19th February, 2002 to 12th October, 2007	0.80	—	200,000	—	—	200,000
26th February, 2001	26th February, 2002 to 12th October, 2007	0.80	—	240,000	—	—	240,000
22nd May, 2001	22nd May, 2002 to 12th October, 2007	0.80	—	10,000,000	—	—	10,000,000
1st June, 2001	1st June, 2002 to 12th October, 2007	0.80	—	330,000	—	—	330,000
7th June, 2001	7th June, 2002 to 12th October, 2007	0.80	—	290,000	—	—	290,000
			37,220,000	11,360,000	270,000	—	48,310,000

27. WARRANTS

The Company has warrants outstanding as at 31st December, 2001 entitling the holders to subscribe for one share at an initial subscription price of $1.24 per share (subject to adjustments) from 28th March, 2000 to 27th March, 2002.

During the year, no warrants were exercised, and they expired on 27th March, 2002.

28. RESERVES

Movements of reserves were:

	2001					2000
	Share premium	**Special reserve (a)**	**Cumulative translation adjustments**	**Statutory reserves (b)**	**Total**	**(Restated - Notes 2 & 37) Total**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Consolidated						
Beginning of year						
- As previously reported	276,724	196,317	1,617	—	474,658	487,311
- Prior year adjustment *(Note 2)*	—	10,150	—	—	10,150	—
- As restated	276,724	206,467	1,617	—	484,808	487,311
Expenses of issuance of bonus warrants	—	—	—	—	—	(18)
New shares issued on exercise of bonus warrants	—	—	—	—	—	3
Elimination of goodwill from acquisition of interest in an associate	—	—	—	—	—	(5,214)
Elimination of goodwill from acquisition of interest in subsidiaries	—	—	—	—	—	(10,150)
Release of goodwill upon disposal of interest in an associate	—	7,628	—	—	7,628	2,565
Provision for impairment of goodwill previously charged against special reserve *(Note 2)*	—	—	—	—	—	10,150
Transfer from retained profit to statutory reserves	—	—	—	15	15	—
Translation adjustments	—	—	455	—	455	161
End of year	276,724	214,095	2,072	15	492,906	484,808
Company						
Beginning of year	276,724	—	—	—	276,724	276,739
Expenses of issuance of bonus warrants	—	—	—	—	—	(18)
New shares issued on exercise of bonus warrants	—	—	—	—	—	3
End of year	276,724	—	—	—	276,724	276,724

Notes:

a. The special reserve of the Group represents the excess of issued share capital of a subsidiary acquired over the fair value of the shares issued by the Company pursuant to the group reorganisation in 1997.

b. Statutory reserves:

The subsidiaries established in Mainland China are required to make appropriations from their respective retained profit to certain statutory reserve funds in accordance with the laws and regulations in Mainland China. Movements of the statutory reserve funds were:

	2001			2000
	General fund	**Development fund**	**Total**	**Total**
	$'000	*$'000*	*$'000*	*$'000*
Beginning of year	—	—	—	—
Transfer from retained profit	10	5	15	—
End of year	10	5	15	—

The general fund can be utilised to offset prior years' losses or to increase capital on the condition that the general fund shall be maintained at a minimum of 25% of the capital after such issuance.

The development fund is to be utilised for the betterment of business operations.

29. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

a. Reconciliation of loss before taxation to net cash outflow from operating activities:

	2001 *$'000*	2000 *$'000* (Restated - Notes 2 & 37)
Loss before taxation	(105,970)	(49,139)
Interest income	(6,981)	(8,116)
Interest expense	23,203	25,983
Gain on disposal of subsidiaries	(33)	(4,000)
Gain on disposal of an associate	(833)	(31,099)
Deficit on revaluation of investment properties	3,400	8,850
Provision against advances to an associate	28,543	—
Provision for impairment in value of long-term investments	7,214	4,000
Provision for impairment in value of land pending development	9,550	462
Impairment of goodwill	625	10,150
Share of losses of associates	15,332	19,033
Depreciation of fixed assets	2,244	1,043
Net loss on disposal of fixed assets	84	189
Increase in properties under development	(8)	—
Decrease in land pending development	—	9,441
Increase in inventories	(5,762)	(4,278)
Increase in trade receivables	(2,385)	(6,193)
Decrease (Increase) in properties held for sale	1,868	(5,537)
Increase in prepayments, deposits and other receivables	(3,265)	(12,632)
Decrease in amount due from a fellow subsidiary	—	858
Increase in amount due from an associate	(2,000)	—
Increase in amount due to a fellow subsidiary	8,700	—
Increase in trade payables	2,418	1,652
Increase in accruals and deposits received	6,492	4,143
Net cash outflow from operating activities	(17,564)	(35,190)

b. Details of net assets of subsidiaries acquired are as follows:

	2001	2000
	$'000	*$'000*
Investment properties	99,630	—
Properties held for sale	19,500	—
Fixed assets	279	437
Inventories	978	690
Trade receivables	935	1,843
Prepayments and deposits	—	1,187
Other receivables	1,916	—
Cash and bank deposits	1,362	2,251
Trade payables	(2,287)	(926)
Accruals and deposits received	(5,377)	(1,658)
Long-term bank loans	(99,991)	—
	16,945	3,824
Less: minority interests	—	(1,147)
Group's share of net assets acquired	16,945	2,677
Goodwill on acquisition	625	10,150
Negative goodwill on acquisition and was recognised as income	(686)	—
Consideration paid	16,884	12,827

Net cash outflow from acquisition of subsidiaries is as follows:

	2001	2000
Cash and bank deposits acquired	1,362	2,251
Cash consideration paid	(16,884)	(12,827)
Net cash outflow from acquisition of subsidiaries	(15,522)	(10,576)

c. Details of net assets of subsidiaries disposed of are as follows:

	2001	2000
	$'000	*$'000*
Fixed assets	1,075	—
Inventories	818	—
Trade receivables	1,457	—
Prepayments and deposits	21	—
Other receivables	610	—
Cash and bank deposits	992	—
Trade payables	(355)	—
Accruals and deposits received	(790)	—
	3,828	—
Less: minority interests	(1,281)	—
Group's share of net assets disposed of	2,547	—
Gain on disposal of subsidiaries	33	4,000
Consideration received/receivable	2,580	4,000
Satisfied by:		
Cash	—	4,000
Amount due from a related company	2,580	—
	2,580	4,000

Net cash (outflow) inflow from disposal of subsidiaries is as follows:

	2001	2000
Cash and bank deposits disposed of	(992)	—
Cash consideration received	—	4,000
Net cash (outflow) inflow from disposal of subsidiaries	(992)	4,000

d. Analysis of changes in financing:

	Share capital (including share premium)	Long-term bank loans	Short-term bank loan	Obligations under finance leases (included in accruals)	Due to an intermediate holding company	Due to an associate	Minority interests	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
As at 1st January, 2000	344,792	23,327	—	51	200,398	—	44,173	612,741
Expenses of issuance of bonus warrants	(18)	—	—	—	—	—	—	(18)
New shares issued on exercise of bonus warrants	3	—	—	—	—	—	—	3
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	—	—	8,207	8,207
Attributable to acquisition of subsidiaries	—	—	—	—	—	—	1,147	1,147
Share of losses for the year	—	—	—	—	—	—	(1,048)	(1,048)
Increase in amount due to an intermediate holding company	—	—	—	—	92,825	—	—	92,825
Repayment of capital element of finance lease obligations	—	—	—	(51)	—	—	—	(51)
Repayment of long-term bank loans	—	(9,191)	—	—	—	—	—	(9,191)
Translation adjustments	—	—	—	—	—	—	166	166
As at 31st December, 2000	344,777	14,136	—	—	293,223	—	52,645	704,781
Capital contribution from minority shareholders of subsidiaries	—	—	—	—	—	—	7,670	7,670
Attributable to acquisition of subsidiaries	—	99,991	—	—	—	—	—	99,991
Attributable to disposal of subsidiaries	—	—	—	—	—	—	(1,281)	(1,281)
Share of losses for the year	—	—	—	—	—	—	(3,260)	(3,260)
Increase in amount due to an intermediate holding company	—	—	—	—	3,612	—	—	3,612
Increase in amount due to an associate	—	—	—	—	—	4,636	—	4,636
New long-term bank loans	—	1,827	—	—	—	—	—	1,827
New short-term bank loan	—	—	8,000	—	—	—	—	8,000
Repayment of long-term bank loans	—	(19,188)	—	—	—	—	—	(19,188)
Translation adjustments	—	—	—	—	—	—	359	359
As at 31st December, 2001	344,777	96,766	8,000	—	296,835	4,636	56,133	807,147

e. Major non-cash transactions:

During the year, the Group disposed of its interests in three subsidiaries namely Fortunefeel Limited, Gainful Spark Limited and Uniprosper Limited to Anwell for a total consideration of $2,580,000 (see Note 3.e). The consideration is due from a related company.

f. Analysis of cash and cash equivalents:

	2001	2000
	$'000	*$'000*
Cash and bank deposits	17,290	17,930
Overdrafts	(17,921)	(3,994)
	(631)	13,936

30. SEGMENT INFORMATION

a. Primary segment

The Group is organised into four major operating units — (i) information technology related business (the "information technology unit"); (ii) property development business (the "property development unit"); (iii) property letting business (the "property letting unit"); and (iv) investment holding and others (the "investment holding and others unit").

	2001	2000
	$'000	*$'000* (restated- Notes 2 & 37)
Turnover — external sales		
— information technology unit	108,950	59,914
— property development unit	1,268	3,014
— property letting unit	2,200	675
— investment holding and others unit	154	—
	112,572	63,603
Loss attributable to shareholders		
— information technology unit	(6,211)	(14,479)
— property development unit	(44,141)	(3,465)
— property letting unit	(6,364)	(4,923)
— investment holding and others unit	(46,100)	(25,224)
	(102,816)	(48,091)
Depreciation and amortisation		
— information technology unit	1,789	784
— property development unit	—	—
— property letting unit	—	—
— investment holding and others unit	455	259
	2,244	1,043

	2001 *$'000*	2000 *$'000* (restated- Notes 2 & 37)
Capital expenditures		
— information technology unit	7,359	5,744
— property development unit	—	—
— property letting unit	—	—
— investment holding and others unit	125	691
	7,484	6,435
Assets		
— information technology unit	52,664	36,738
— property development unit	358,491	383,661
— property letting unit	131,994	34,323
— investment holding and others unit	24,648	67,336
	567,797	522,058
Liabilities		
— information technology unit	(26,268)	(12,510)
— property development unit	(316,946)	(251,837)
— property letting unit	(134,828)	(18,374)
— investment holding and others unit	(7,108)	(65,445)
	(485,150)	(348,166)

b. **Secondary segment**

The Group has business operations in Mainland China and Hong Kong. An analysis by geographical location is as follows:

	2001	2000
	$'000	*$'000*
		(Restated-Notes 2 & 37)
Turnover*		
— Mainland China	110,217	62,928
— Hong Kong	2,355	675
	112,572	63,603
Loss attributable to shareholders		
— Mainland China	(25,125)	(27,818)
— Hong Kong	(77,691)	(20,273)
	(102,816)	(48,091)
Capital expenditures		
— Mainland China	7,359	5,744
— Hong Kong	125	691
	7,484	6,435
Assets		
— Mainland China	174,500	167,190
— Hong Kong	393,297	354,868
	567,797	522,058

* Turnover by geographical location is determined mainly on the basis of the destination of delivery of merchandise or where services are delivered.

31. COMMITMENTS

a. Capital commitments (consolidated):

As at 31st December, 2001, the Group had the following capital commitments in respect of its property development projects in Hong Kong and Mainland China:

	2001	2000
	$'000	*$'000*
Authorised by the Directors but not contracted for	76,519	76,519

b. Operating lease commitments (consolidated):

Lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to July 2004 are as follows:

	2001	2000
	$'000	*$'000*
Amounts payable		
— within one year	1,740	852
— after one year but within five years	1,139	886
	2,879	1,738

At 31st December, 2001, the total future minimum lease payments receivable under non-cancellable operating leases were as follows:

	2001	2000
	$'000	*$'000*
Amounts receivable due		
— within one year	4,219	449
— after one year but within five years	4,669	58
— after five years	662	—
	9,550	507

32. CONTINGENT LIABILITIES

Contingent liabilities not provided for in the financial statements comprised:

a. Guarantees given to banks:

	Consolidated		Company	
	2001	**2000**	**2001**	**2000**
	$'000	*$'000*	*$'000*	*$'000*
Guarantees given to banks for banking facilities granted to				
- Firm Wise Investment Limited ("FWIL"), an associate *(see Note 3)*	174,000	165,989	174,000	165,989
- Subsidiaries *(see Note 14)*	—	—	124,423	12,645
	174,000	165,989	298,423	178,634

b. During the year ended 31st December, 2001, the Group granted a put option to FS, a then associate to sell the remaining 51% equity interests in TBC to the Group within 365 days from 3rd September, 2001 for $8 million. As at 31st December, 2001, FS had not exercised the put option.

c. Outstanding litigations

i. During the year ended 31st December, 2001, a minority shareholder of a subsidiary of the Group filed a claim to the Intermediate People's Court of Dongguan, Guangdong Province, Mainland China against a subsidiary of the Group which engages in property development in Mainland China. In December 2001, the Intermediate People's Court of Dongguan delivered a judgement and ordered (1) to terminate the cooperative agreement between the subsidiary and its minority shareholder, (2) the minority shareholder to take possession of the Group's interest in the property development project, and (3) the subsidiary to receive cash and other receivables of approximately $19.2 million. Based on this judgement, the Group could result in net loss of investment of approximately $11.9 million.

In January 2002, the Group appealed to the Superior People's Court of Guangdong Province regarding the judgement delivered by the Intermediate People's Court of Dongguan, and at the same time counter claimed against the minority shareholder for damages for breach of contract and refund of investment amounts. Based on the advice of a legal counsel, the Directors believe that they have sufficient evidence and legal bases for their appeal and the Group's claim will prevail.

ii. As at 31st December, 2001, the Company undertook to indemnify the shareholder of a former associate for a corporate guarantee granted by the former associate in respect of the banking facilities granted to an associate ("HNF") of the Group amounting to US$3 million (equivalent to approximately $23.3 million). Such facilities were also secured by an irrevocable standby letter of credit issued by a bank established in Mainland China and guaranteed by a former director of the former associate and three other parties. An outstanding legal claim was lodged in March 1999 by the bank against the former associate and other guarantors in respect of the borrowings of HNF of approximately $19 million. The case was adjourned and has not proceeded since 1999. It had also been in abeyance since January 2000. The Directors do not believe that the Group will have any significant obligation in respect of this outstanding claim. No provision has therefore been recorded in the financial statements.

iii. As at 31st December, 2001, there was outstanding litigation originally lodged in February 1999 against the Group in respect of a claim for damages. The Directors believe that the Group has good grounds to resist the claim because the plaintiffs failed to diligently prosecute the action. In addition, one of the defendants has successfully applied to strike off the claim against him which weakened the credibility of the plaintiffs. The Directors do not believe that the Group will have any significant obligation in respect of this outstanding claim. No provision has therefore been recorded in the financial statements.

33. PENSION SCHEME

Following the introduction of the Mandatory Provident Fund legislation in Hong Kong, the Group companies in Hong Kong participate in two pension schemes, one registered under the Occupational Retirement Scheme Ordinance ("the ORSO Scheme") and one registered under the Mandatory Provident Fund legislation ("the MPF Scheme").

Under the ORSO Scheme, the Group has arranged for its employees (including certain executive directors) provident funds under several defined contribution schemes managed by independent trustees. The employees make monthly contributions to the schemes at 5% of their basic salaries, while the Group makes monthly contributions to these schemes at 5% to 7.5% of the employees' basic salaries. The employees are entitled to receive their entire contribution and the accrued interest thereon, and 100% of the employer's contribution and the accrued interest thereon upon retirement or leaving the Group after completing 10 years of service or at a reduced scale of between 30% to 90% after completing 3 to 9 years of service. The forfeited contributions made by the Group and related accrued interest are used to reduce the employer's contribution. This scheme is not available to new employees effective 1st December, 2000.

The MPF Scheme was set up on 1st December, 2000 and is a defined contribution scheme managed by independent trustees. Members of the ORSO Scheme were given a one-time option to choose to transfer to the MPF Scheme or remain in the ORSO Scheme. Under the MPF Scheme, each of the Company and its employees makes monthly contribution to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The contributions from employees and employer are subject to a maximum of monthly earnings of $20,000.

As stipulated by Mainland China rules and regulations, the Group contributes to Stated-sponsored retirement plans for its employees in Mainland China. The Group contributes to State-sponsored retirement plans at rates of approximately 12% to 30% of the basic salaries of its employees in Mainland China, and has no further obligations for the actual payments of pension or post-retirement benefits. The State-sponsored retirement plans are responsible for the entire pension obligations payable to retired employees.

During the year, the aggregate employer's contributions made by the Group were approximately $104,000 (2000 - $552,000) after deduction of forfeited contributions of approximately $275,000 (2000 - $82,000). As at 31st December, 2001, there were no material forfeitures available to offset the Group's future contributions (2000 - Nil).

34. BANKING FACILITIES AND PLEDGES OF ASSETS

As at 31st December, 2001, the Group's banking facilities for overdrafts and loans are secured by:

a. mortgages over the Group's investment properties with an aggregate net book value of approximately $127,530,000 (2000 - $34,200,000) (see Note 13);

b. mortgages over the Group's properties under development with a net book value of approximately $17,882,000 (2000 - $17,874,000) (see note 17);

c. mortgages over the Group's fixed assets with a net book value of approximately $2,599,000 (2000 - Nil) (See note 12); and

d. corporate guarantee by South China Industries Limited, an intermediate holding company, of approximately $23,000,000 (2000 - $10,000,000) (see Note 3).

35. ULTIMATE HOLDING COMPANY

The Company's directors consider South China Holdings Limited, a company incorporated in the Cayman Islands and whose shares are listed on The Stock Exchange of Hong Kong Limited, to be the ultimate holding company.

36. SUBSEQUENT EVENTS

The following events took place after year end:

a. At an Extraordinary General Meeting held on 28th February, 2002, it was passed to reduce the issued and paid up capital of the Company to $0.01 per share by cancelling $0.09 on each of the existing shares of $0.10 in issue on 28th February, 2002 (the "Capital Reduction"). The Capital Reduction is subject to certain regulatory approval. The credit arising from the Capital Reduction will be applied towards the elimination of the same amount of accumulated losses reflected in the balance sheet as at 31st December, 2001. The balance of accumulated losses not being cancelled above will be applied towards the elimination of the credit balance reflected in the balance sheet as at 31st December, 2001 of the share premium account of the Company. Upon the Capital Reduction becoming effective, the authorised share capital of the Company will be $100,000,000 divided into 10,000,000,000 new shares of $0.01 each.

b. On 22nd April, 2002, the Company entered into agreements with an independent third party to effect a financial restructuring proposal for the Group. Upon the completion of the above financial restructuring proposal, the independent third party will essentially inject $66 million into the Company.

37. COMPARATIVE FIGURES

In addition to the prior year adjustments recorded to reflect the impairment of goodwill previously eliminated against reserves as a result of the first adoption of the transitional provisions of SSAP 30 as detailed in Note 2 of the financial statements, certain prior year comparative figures have been reclassified to conform to the current year's presentation.

4. STATEMENT OF PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE SCIT GROUP

The following statement of pro forma adjusted consolidated net tangible assets of SCIT Group is based on the audited consolidated net assets of the SCIT Group as at 31st December, 2001 and adjusted to reflect the financial effects of the Financial Restructuring Proposal:

		HK$'000
Audited consolidated net tangible assets of the SCIT Group as at 31st December, 2001		26,514
Less:	Deficit on revaluation of the SCIT Group's interests in investment properties, leasehold land and building, and land pending for development *(Note)*	(85,000)
	Further increase in the Shareholders' Loan to be set off by proceeds from transactions contemplated under the Subscription Agreement and the Disposal Agreement	(6,000)
	Disposal of the Sale Interest under the Disposal Agreement	(239,000)
Add:	Gross proceeds from the issue of the Subscription Shares pursuant to Financial Restructuring Proposal	66,000
	Consideration for the disposal of the Sale Interest	239,000
Pro forma adjusted consolidated net tangible assets of the SCIT Group upon completion of the Financial Restructuring Proposal		1,514
Consolidated net tangible asset value per share of the SCIT Group as at 31st December, 2001, before completion of the Financial Restructuring Proposal and based on 680,529,805 Existing Shares in issue		3.896 cents
Pro forma adjusted consolidated net tangible asset value per share of the SCIT Group upon completion of the Financial Restructuring Proposal, based on 3,340,264,902 New Shares in issue		0.045 cents

Note: The deficit on revaluation of property interests is based on the valuation carried out by the independent property valuers, FPDSavills (Hong Kong) Limited and BMI Appraisals Limited, chartered surveyors on the SCIT Group's investment properties, leasehold land and buildings and land pending for development as at 31st March, 2002. The report is set out in Appendix II to this circular.

5. INDEBTEDNESS STATEMENT

At the close of the business on 31st March, 2002, the latest practicable date for the purpose of ascertaining certain information relating to this indebtedness statement prior to the printing of this circular, the SCIT Group had outstanding borrowing of HK$442 million, comprising secured bank borrowings of approximately HK$121.8 million and the Shareholders' Loan of approximately HK$320.2 million. The SCIT Group's bank borrowings were secured by certain investment properties and leasehold land and building of the group, and corporate guarantee by South China Industries Limited, an intermediate holding company, of approximately HK$23 million. As at 31st March, 2002, the net book value of these pledged properties, amounts to approximately HK$148 million.

At the close of the business on 31st March, 2002, the SCIT Group also had the following contingent liabilities:—

a. The SCIT Group undertook guarantee amounting to HK$174 million for banking facilities granted to an associate of the Disposal Company.

b. A minority shareholder of a subsidiary of the Disposal Company filed a claim to the Intermediate People's Court of Dongguan, Guangdong Province, Mainland China against a subsidiary of the group which engages in property development in Mainland China. In December 2001, the Intermediate People's Court of Dongguan delivered a judgement and ordered (1) to terminate the cooperative agreement between the subsidiary and its minority shareholder, (2) the minority shareholder to take possession of the group's interest in the property development project, and (3) the subsidiary to receive cash and other receivables of approximately HK$19.2 million. Based on this judgement, The SCIT Group could result in net loss of investment of approximately HK$11.9 million.

c. In January 2002, the SCIT Group appealed to the Superior People's Court of Guangdong Province regarding the judgement delivered by the Intermediate People's Court of Dongguan, and at the same time counter claimed against the minority shareholder for damages for breach of contract and refund of investment amounts. Based on the advice of a legal counsel, the Directors believe that they have sufficient evidence and legal bases for their appeal and the group's claim will prevail.

d. SCIT undertook to indemnify the shareholder of a former associate for a corporate guarantee granted by the former associate in respect of the banking facilities granted to an associate ("HNF") of the SCIT Group amounting to US$3 million (equivalent to approximately HK$23.3 million). Such facilities were also secured by an irrevocable standby letter of credit issued by a bank established in Mainland China and guaranteed by a former director of the former associate and three other parties. An outstanding legal claim was lodged in March 1999 by the bank against the former associate and other guarantors in respect of the borrowings of HNF of approximately HK$19 million. The case was adjourned and has not proceeded since 1999. It had also been in abeyance since January 2000. The Directors do not believe that the SCIT Group will have any significant obligation in respect of this outstanding claim.

e. There was outstanding litigation originally lodged in February 1999 against, amongst others, the SCIT Group in respect of a claim for damages of unspecified amount in relation to alleged breach of the terms of a confidentiality agreement or duty of confidence to acquire the shares in Four Seas Travel International Limited (the former name of Fouseas.com Limited). The Directors believe that the SCIT Group has good grounds to resist the claim because the plaintiffs failed to diligently prosecute the action. In addition, one of the defendants, not being a member of the SCIT Group, has successfully applied to strike off the claim against him which weakened the credibility of the plaintiffs. The Directors do not believe that the SCIT Group will have any significant obligation in respect of this outstanding claim.

Save as aforesaid or as otherwise disclosed above and apart from intra-group liabilities, at the close of business on 31st March, 2002, neither SCIT nor any of its subsidiaries had any outstanding debentures or other loan capital or any term loans, other borrowings or indebtedness in the nature of borrowings, including bank overdrafts or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, hire purchase or finance lease commitments, guaranteed or unguaranteed, secured or unsecured borrowings and debts, mortgages, charges, material contingent liabilities or guarantees.

Save for the above, the Directors are not aware of any material changes in the SCIT Group's indebtedness and contingent liabilities since 31st March, 2002.

6. WORKING CAPITAL

The Directors are of the opinion that, provided that the Financial Restructuring Proposal is successfully implemented, in the absence of unforeseen circumstances, the SCIT Group will have sufficient working capital for its present requirements.

7. MATERIAL CHANGES

Save as disclosed above in the section headed "Indebtedness Statement" and in the statement of pro forma adjusted consolidated net tangible assets of the SCIT Group as set out in this circular, the Directors are not aware of any material changes in the financial or trading position or prospects of the SCIT Group since 31st December, 2001, the date to which the latest published audited consolidated financial statements of the SCIT Group were made up.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from FPDSavills (Hong Kong) Limited and BMI Appraisals Limited, independent property valuers, in connection with their valuations as at 31st March, 2002 of the property interests of the Group.

FPDsavills
第一太平戴維斯 INTERNATIONAL PROPERTY CONSULTANTS

FPDSavills (Hong Kong) Limited
23/F Two Exchange Square
Central, Hong Kong

Telephone : 2801 6100
Fax : 2530 0756

BMI APPRAISALS LIMITED
邦盟滙駿評估有限公司

Suite 1405-06 Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong
Tel: (852) 2802 2191 Fax: (852) 2802 0331
Email: info@bmi-appraisals.com Website: http://www.bmi-appraisals.com

7th June, 2002

The Directors
South China Information and Technology Limited
28th Floor, Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

Dear Sirs,

In accordance with your instructions to value the property interests of South China Information and Technology Limited (referred to as the "Company") and its subsidiaries (hereinafter together collectively referred to as the "Group") located in Hong Kong and in the People's Republic of China, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for providing you with our opinion of the open market values of such property interests as at 31st March, 2002.

BASIS OF VALUATION

Our valuations of the property interests are our opinion of the open market value which we would define as intended to mean our opinion of "the best price at which the sale of an interest in a property would 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 prospective purchaser with a special interest; and

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

PROPERTY CATEGORIZATION

In the course of our valuations, the portfolio of properties held by the Group are categorized under the following groups:

Group I — Property interests held for investment by the Group in Hong Kong

Group II — Property interests held for sale by the Group in the PRC

Group III — Property interests held for development by the Group in the PRC

Group IV — Property interest held for owner-occupation by the Group in the PRC

VALUATION METHODOLOGIES

Group I

In valuing the properties, which are held for investment by the Group, we have adopted the Investment Approach by taking into account the current rents passing or the hypothetical rents and the reversionary potential of the tenancies if they have been or would be let to tenants.

Group III

In valuing the properties, which are held under development, we have assumed that they will be developed and completed in accordance with the Group's respective latest development proposals. In arriving at our opinion of values, we have valued the land by the Direct Comparison Approach by making reference to comparable transactions in the locality and have taken into account the construction costs and professional fees already spent and the remainder to be expended to complete the developments.

Groups II and IV

In valuing Property 26, which is a hotel development not in operation, we have also considered the Cost Method, which is based on the current replacement cost to rebuild the subject building with allowance of depreciation for physical and economic obsolescence.

In valuing the remaining properties, which are held for either sale or owner-occupation by the Group, we have valued them on an open market basis by the Direct Comparison Approach assuming sale in the existing state with the benefit of vacant possession by making reference to comparable sales evidence as available in the open market.

TITLE INVESTIGATION

Group I

We have caused sample searches to be made at the relevant Land Registry and in some instances we have been provided with extracts of tenancy agreements. However, we have neither examined the original documents to verify ownership nor to ascertain the existence of any amendments, which do not appear on the copies handed to us. All documents and leases have been used for reference only.

Groups II, III and IV

We have been provided with extracts of title documents and have been advised by the Group that no further relevant documents have been produced. Moreover, due to the nature of the land registration system in the PRC, we have not been able to examine the original documents to verify ownership or to ascertain the existence of any amendment documents, which may not appear on the copies handed to us. Therefore, in the course of our valuations, we have relied on the advice and information given by the Group and its PRC legal advisers in the legal opinion regarding the titles of such PRC properties.

VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the property interests can be sold in the open market without a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which could serve to affect the values of the property interests. In addition, no account has been taken of any option or right of pre-emption concerning or effecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuations.

In valuing the property interests, we have assumed that the Group has valid and enforceable title to the property interests which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual Government rent payable has been fully settled.

We have assumed that all consents, approvals and licenses from the relevant government authorities for the properties held under development have been granted without onerous conditions or undue delay, which might affect their values.

We have valued the properties on the basis that each of them is considered individually. We have not allowed for any discount for the properties to be sold to a single party nor taken into account any effect on the values if the properties are to be offered for sale at the same time, as a portfolio.

ADDITIONAL VALUATION ASSUMPTIONS

Our estimates of the open market values of Properties 25 to 31 are subject to our standard terms and conditions as attached and are prepared basing on the following assumptions.

a) The owner of the each of the properties has good and marketable title to the respective properties.

b) Each of the properties, whether as a whole or on a strata-title basis, may be disposed of freely to both local and overseas purchasers.

c) All land premium and other costs of ancillary utility services have been settled in full; and

d) Each of the properties is free from encumbrances, restrictions and outgoings of an onerous nature, which may affect its value.

For Properties 27 to 30, we adopt the following additional assumptions:

e) The properties will be developed in accordance with the development proposals provided to us.

f) The design and construction of each of the properties are in compliance with local planning regulations and have been approved by the relevant authorities.

VALUATION CONSIDERATIONS

In valuing the properties, the Government Leases of which have expired before 30th June, 1997, we have taken into account the provisions contained in the Basic Law of Hong Kong Special Administrative Region and the New Territories Leases (Extension) Ordinance 1988 that such leases have been extended without payment of premium until 30th June, 2047 and that an annual rent of three per cent of the rateable value will be charged from the date of extension.

We have inspected the exterior of the properties included within the attached valuation certificates. During the course of our inspections, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the properties are free from rot, infestation or other defects. No tests were carried out on any of the services.

We have not verified and make no representation that the property(ies), including any plant and equipment therein, is millennium compliant, or that the value of the property(ies) is(are) not adversely affected in any way by any part of it(them) not being millennium compliant within the meaning of BSI definition of Year 2000 compliance.

We have relied to a considerable extent on the information provided by the Group and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, completion dates of buildings, particulars of occupancy, rentals, lettings, floor areas, development plans, construction costs expended or to be spent and all other relevant matters.

We have not carried out detailed on-site measurements to verify the correctness of the site/floor areas in respect of the properties but have assumed that the site/floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificates are based on information contained in the documents provided to us by the Group and are therefore only approximations.

We have had no reason to doubt the truth and accuracy of the information provided to us by your Group. Your Group has also advised us that no material facts have been omitted from the information to reach an informed view, and have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on any of the properties valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values. As advised by the Company, if the properties were to be sold at the valuation of approximately HK$557.6 million, there would not be any significant gain or loss and therefore no tax liability as the properties were recorded at market value which was below the original costs of the properties. As further advised by the Company, there is only a change of shareholder of the ultimate holding company holding those properties, and thus there is not any likelihood of potential tax liability crystallizing.

Our valuations have been prepared in accordance with the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March 2000. Our valuations have also been prepared under the generally accepted valuation procedures and in compliance with the Listing Rules of The Stock Exchange of Hong Kong Limited.

REMARKS

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars and no allowances have been made for any exchange transfers. The exchange rate adopted is the average rate as at 31st March, 2002 being HK$1=RMB1.06. There has been no significant fluctuation in the exchange rate between that date and the date of this letter.

Our Summary of Values and Valuation Certificates are enclosed herewith.

Yours faithfully,
For and on behalf of

FPDSavills (Hong Kong) Limited
William W.L. Wong
BLE MRICS AHKIS RPS
Senior Director

BMI Appraisals Limited
Tony C.H. Cheng
BSc MUD MRICS AHKIS MCIArb AFA MIIM
Director

Note: William W.L. Wong and Tony C.H. Cheng are Chartered Surveyors who have more than ten years' experience in valuations of properties in Hong Kong and the People's Republic of China.

SUMMARY OF VALUES

No.	Property	Open Market Value in existing state as at 31st March, 2002	Interest attributable to the Group	Value attributable to the Group as at 31st March, 2002
Group I — Property interests held for investment by the Group in Hong Kong				
1	Whole of First Floor and two Lavatories (at rear of Staircases between 1st Floor and 2nd Floor), On Lok Yuen Building, Nos. 25, 27 & 27A Des Voeux Road Central, Central, Hong Kong	HK$9,800,000	100%	HK$9,800,000
2	All Offices on Second Floor (including two lavatories), On Lok Yuen Building, Nos. 25, 27 & 27A Des Voeux Road Central, Central, Hong Kong	HK$8,800,000	100%	HK$8,800,000
3	Units A, B and C on 7th Floor and the three lavatories thereof, Century House, Nos. 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon	HK$4,400,000	100%	HK$4,400,000
4	Units A and B on 8th Floor and the two lavatories thereof, Century House, Nos. 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon	HK$2,900,000	100%	HK$2,900,000

No.	Property	Open Market Value in existing state as at 31st March, 2002	Interest attributable to the Group	Value attributable to the Group as at 31st March, 2002
5	Unit C on 8th Floor and the Lavatory thereof, Century House, Nos. 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon	HK$1,650,000	100%	HK$1,650,000
6	Units B and C on 9th Floor and the two Lavatories thereof, Century House, Nos. 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon	HK$2,950,000	100%	HK$2,950,000
7	The Second Floor and External Walls, Metropole Building, Nos. 53-63 Peking Road and Nos. 12, 12A, 12B & 12C Hankow Road, Tsim Sha Tsui, Kowloon	HK$6,500,000	100%	HK$6,500,000
8	Units A and B of 4th Floor, McDonald's Building, Nos. 46-54 Yee Wo Street, Causeway Bay, Hong Kong	HK$5,500,000	100%	HK$5,500,000
9	Unit Nos. 1022 on 10th Floor, Nan Fung Centre, Nos. 264-298 Castle Peak Road and Nos. 64-98 Sai Lau Kok Road, Tsuen Wan, New Territories	HK$1,500,000	100%	HK$1,500,000

No.	Property	Open Market Value in existing state as at 31st March, 2002	Interest attributable to the Group	Value attributable to the Group as at 31st March, 2002
10	Flat A2 on 1st Floor, Carnarvon Mansion, Nos. 8-12E Carnarvon Road and Nos. 8A-8H, 8J & 8K Humphreys Avenue, Tsim Sha Tsui, Kowloon	HK$1,600,000	100%	HK$1,600,000
11	Unit Nos. 4, 5, 6, 7 and 8 on 3rd Floor, Houston Centre, No. 63 Mody Road, Tsim Sha Tsui, Kowloon	HK$14,000,000	100%	HK$14,000,000
12	Unit No. 78 on 2nd Floor, Houston Centre, No. 63 Mody Road, Tsim Sha Tsui, Kowloon	HK$300,000	100%	HK$300,000
13	Four Seas Jade Centre, Nos. 530, 532, 534 and 536 Canton Road, Yau Ma Tei, Kowloon	HK$23,000,000	100%	HK$23,000,000
14	Flat B1 on 5th Floor and Car Parking Space No. 18 on Ground Floor, Beverley Heights, No. 67 Beacon Hill Road, Kowloon Tong, Kowloon	HK$3,380,000	100%	HK$3,380,000

No.	Property	Open Market Value in existing state as at 31st March, 2002	Interest attributable to the Group	Value attributable to the Group as at 31st March, 2002
15	Flat No. 1211 on 12th Floor, Flat Nos. 1303, 1315 on 13th Floor, Flat Nos. 1513 and 1521 on 15th Floor, Flat Nos. 1603, 1622 on 16th Floor and Flat No. 2004 on 20th Floor, Bell House, Nos. 525 to 543 Nathan Road, Yau Ma Tei, Kowloon	HK$7,900,000	100%	HK$7,900,000
16	Workshops D1, E1 and F1 on 5th Floor, Hang Fung Industrial Building, Phase 1, No. 2G Hok Yuen Street, Hung Hom, Kowloon	HK$4,100,000	100%	HK$4,100,000
17	2nd Floor, No. 10A Austin Avenue, Tsim Sha Tsui, Kowloon	HK$1,350,000	100%	HK$1,350,000
18	Unit 14 on 6th Floor, Nan Fung Commercial Centre, No. 19 Lam Lok Street, Kowloon Bay, Kowloon	HK$1,700,000	100%	HK$1,700,000
19	Flats A, B, C and D on 1st Floor, Fu Fung Building, Nos. 5-7 Tsing Fung Street, North Point, Hong Kong	HK$3,000,000	100%	HK$3,000,000
20	1st Floor of Block G, Kimberley Mansion, No. 15 Austin Avenue, Tsim Sha Tsui, Kowloon	HK$1,500,000	100%	HK$1,500,000

No.	Property	Open Market Value in existing state as at 31st March, 2002	Interest attributable to the Group	Value attributable to the Group as at 31st March, 2002
21	Unit A on Ground Floor also known as Storage A, Mai Luen Industrial Building, Nos. 23-31 Kung Yip Street, Kwai Chung, New Territories	HK$13,800,000	100%	HK$13,800,000
22	Units J and L on 2nd Floor, Private Car Parking Space Nos. G20 and G22 and Lorry Parking Space Nos. L3 and L4 on Ground Floor, Kaiser Estate 2nd Phase, Nos. 47-53 Man Yue Street, Hung Hom, Kowloon	HK$10,800,000	100%	HK$10,800,000
23	The Centrium, No. 60 Wydham Street, Central, Hong Kong	HK$1,100,000,000	30%	HK$330,000,000
24	Ground Floor to 5th Floor (The Whole Block), Nos. 18-20 Ming Fung Street, Wong Tai Sin, Kowloon	HK$16,000,000	100%	HK$16,000,000
	Sub-total:	HK$1,246,430,000		HK$476,430,000

Group II — Property interests held for sale by the Group in the PRC

25	Unit C on 15th Floor, World Trade Plaza, Wusi Road, Fuzhou, Fujian Province, the PRC	HK$1,600,000	100%	HK$1,600,000

No.	Property	Open Market Value in existing state as at 31st March, 2002	Interest attributable to the Group	Value attributable to the Group as at 31st March, 2002
26	Grand Hotel Four Seas, Kai Cheung Da Dao, Danshui, Huiyang City, Guangdong Province, the PRC	HK$15,000,000	100%	HK$15,000,000
	Sub-total:	HK$16,600,000		HK$16,600,000

Group III — Property interests held for development by the Group in the PRC

27	Site located at Qingdao National Shilaoren Tourist Area (known as Land Plot No. 1-3-3), Qingdao, Shandong Province, the PRC	No Commercial Value	60%	No Commercial Value
28	Site located at the south of Zhanjiangan Lu and west of Xujiamaidao Hotel, Qingdao, Shandong Province, the PRC	HK$5,000,000	100%	HK$5,000,000
29	Dongguan Lion City, Liaobu Zhen, Dongguan, Guangdong Province, the PRC	HK$66,000,000	60%	HK$39,600,000

No.	Property	Open Market Value in existing state as at 31st March, 2002	Interest attributable to the Group	Value attributable to the Group as at 31st March, 2002
30	新華豪庭 (formerly named as "Charming Square"), Fahuazhen Lu, Land Lot No. 215, Changning District, Shanghai, the PRC	HK$90,000,000	20.4%	HK$18,360,000
	Sub-total:	HK$161,000,000		HK$62,960,000

Group IV — Property interest held for owner-occupation by the Group in the PRC

No.	Property	Open Market Value in existing state as at 31st March, 2002	Interest attributable to the Group	Value attributable to the Group as at 31st March, 2002
31	Unit Nos. 3 to 9 on Level 10 of Block D, Ke Yuan 1st Road, Jiu Long Po District, Chongqing City, the PRC	HK$2,700,000	60%	HK$1,620,000
	Sub-total:	HK$2,700,000		HK$1,620,000
	Grand-total:	HK$1,426,730,000		HK$557,610,000

VALUATION CERTIFICATE

Group I — Property interests held for investment by the Group in Hong Kong

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
1	Whole of First Floor and two Lavatories (at rear of Staircases between 1st Floor and 2nd Floor), On Lok Yuen Building, Nos. 25, 27 & 27A Des Voeux Road Central, Central, Hong Kong 5/81 shares of and in Inland Lot No. 2178	The property comprises the whole of 1st floor and two lavatories in a 17-storey (including a mezzanine floor) commercial building completed in about 1961. The saleable of the property is approximately 2,753 sq.ft. (255.76 sq.m.). The property is held under a government lease for a term of 999 years from 6th December, 1899.	The property is currently let at a monthly rental of HK$55,060 exclusive of rates and management fee on monthly basis.	HK$9,800,000 (100% interest attributable to the Group: HK$9,800,000)

Notes:

(1) The registered owner of the property is First City Limited, a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of Fortis Bank Asia HK.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
2	All Offices on Second Floor (including two lavatories), On Lok Yuen Building, Nos. 25, 27 & 27A Des Voeux Road Central, Central, Hong Kong 5/81 shares of and in Inland Lot No. 2178	The property comprises the whole of 2nd floor and two lavatories in a 17-storey (including a mezzanine floor) commercial building completed in about 1961. The saleable area of the property is approximately 2,670 sq.ft. (248.1 sq.m.). The property is held under a government lease for a term of 999 years from 6th December, 1899.	The property is currently let at a monthly rental of HK$53,400 exclusive of rates and management fee on monthly basis.	HK$8,800,000 (100% interest attributable to the Group: HK$8,800,000)

Notes:

(1) The registered owner of the property is Glorious Dragon Investments Limited, a wholly-owned subsidiary of the Company.

(2) The property is subject to a tripartite legal charge/mortgage in favour of The National Commercial Bank Limited (presently known as Bank of China (Hong Kong) Limited).

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
3	Units A, B and C on 7th Floor and the three lavatories thereof, Century House, Nos. 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon 41/1375 shares of and in the Remaining Portion of Kowloon Inland Lot No. 10329, the Remaining Portion of Kowloon Inland Lot No. 10539 and the Remaining Portion of Kowloon Inland Lot No. 10298	The property comprises all three office units on the 7th floor and three lavatories thereof in a 19-storey (including a basement floor) commercial building completed in about 1982. The total gross floor area of the property is approximately 2,416 sq.ft. (224.45 sq.m.) and the total saleable area is approximately 1,842 sq.ft. (171.13 sq.m.). The property is held under three Conditions of Regrant Nos. 10575, 10693 and 11130 for a common lease term of 150 years from 25th December, 1898.	The property is currently let for a term of 2 years from 25th October, 2000 to 24th October, 2002 at a monthly rent of HK$23,000 exclusive of rates and management fee.	HK$4,400,000 (100% interest attributable to the Group: HK$4,400,000)

Notes:

(1) The registered owner of the property is Power Sound Development Limited, a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of Bank of China (Hong Kong) Limited.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
4	Units A and B on 8th Floor and the two lavatories thereof, Century House, Nos. 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon 24/1375 shares of and in the Remaining Portion of Kowloon Inland Lot No. 10329, the Remaining Portion of Kowloon Inland Lot No. 10539 and the Remaining Portion of Kowloon Inland Lot No. 10298	The property comprises two office units on the 8th floor and two lavatories thereof in a 19-storey (including a basement floor) commercial building completed in about 1982. The total gross floor area of the property is approximately 1,385 sq.ft. (128.67 sq.m.) and the total saleable area is approximately 1,056 sq.ft. (98.10 sq.m.). The property is held under three Conditions of Regrant Nos. 10575, 10693 and 11130 for a common term of 150 years from 25th December, 1898.	The property is currently let for a term of 2 years from 15th August, 2001 to 14th August, 2003 at a monthly rent of HK$12,540 exclusive of rates and management fee.	HK$2,900,000 (100% interest attributable to the Group: HK$2,900,000)

Notes: The registered owner of the property is Kingstep Limited, a wholly-owned subsidiary of the Company.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
5	Unit C on 8th Floor and the Lavatory thereof, Century House, Nos. 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon 17/1375 shares of and in the Remaining Portion of Kowloon Inland Lot No. 10329, the Remaining Portion of Kowloon Inland Lot No. 10539 and the Remaining Portion of Kowloon Inland Lot No. 10298	The property comprises an office unit on the 8th floor and two lavatories thereof in a 19-storey (including a basement floor) commercial building completed in about 1982. The gross floor area of the property is approximately 1,031 sq.ft. (95.78 sq.m.) and the saleable area is approximately 786 sq.ft. (73.02 sq.m.). The property is held under three Conditions of Regrant Nos. 10575, 10693 and 11130 for a common term of 150 years from 25th December, 1898.	The property is currently let for a term of 2 years from 15th August, 2001 to 14th August, 2003 at a monthly rent of HK$9,460 exclusive of rates and management fee.	HK$1,650,000 (100% interest attributable to the Group: HK$1,650,000)

Notes:

(1) The registered owner of the property is Unigainful Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of Bank of China (Hong Kong) Limited.

(3) The property was acquired on 10th October, 2001 at a consideration of HK$1,500,000.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
6	Units B and C on 9th Floor and the two Lavatories thereof, Century House, Nos. 3-4 Hanoi Road, Tsim Sha Tsui, Kowloon 25/1375 shares of and in the Remaining Portion of Kowloon Inland Lot No. 10329, the Remaining Portion of Kowloon Inland Lot No. 10539 and the Remaining Portion of Kowloon Inland Lot No. 10298	The property comprises two office units on the 9th floor and two lavatories thereof in a 19-storey (including a basement floor) commercial building completed in about 1982. The total gross floor area of the property is approximately 1,434 sq.ft. (133.22 sq.m.) and the total saleable area is approximately 1,093 sq.ft. (101.54 sq.m.). The property is held under three Conditions of Regrant Nos. 10575, 10693 and 11130 for a common term of 150 years from 25th December, 1898.	The property is currently let for a term of 2 years from 8th June, 2000 to 7th June, 2002 at a monthly rent of HK$15,500 inclusive of rates and management fee.	HK$2,950,000 (100% interest attributable to the Group: HK$2,950,000)

Notes:

(1) The registered owner of the property is Kingstep Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a legal charge/mortgage in favour of The Bank of East Asia, Limited.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
7	The Second Floor and External Walls, Metropole Building, Nos. 53-63 Peking Road and Nos. 12, 12A, 12B & 12C Hankow Road, Tsim Sha Tsui, Kowloon 12/246 shares of and in Kowloon Inland Lot No. 7728	The property comprises 2 units on 2nd floor in a 16-storey commercial building completed in about 1967. The total gross floor area of the property is approximately 3,000 sq.ft. (278.71 sq.m.) whereas the total saleable area is approximately 2,604 sq.ft. (241.92 sq.m.). The property is held under Conditions of Regrant No. 6291 for a term of 150 years from 24th January, 1889. The government rent payable for the property is HK$84 per annum and determined annual instalment of premium is HK$3,250.	Unit A is currently let for a term of 2 years from 15th December, 2000 to 14th December, 2002 at a monthly rent of HK$13,120 whereas Unit B is currently let for a term of 3 years from 6th January, 2001 to 5th January, 2004 at a monthly rent of HK$38,000. The rents are exclusive of rates and management fee.	HK$6,500,000 (100% interest attributable to the Group: HK$6,500,000)

Notes:

(1) The registered owner of the property is Pioneer Faith Development Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of Fortis Bank Asia HK.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
8	Units A and B on 4th Floor, McDonald's Building, Nos. 46-54 Yee Wo Street, Causeway Bay, Hong Kong 210/5420 shares of and in Inland Lot Nos. 6455, 7705-7707 (both inclusive) and the Remaining Portion of Inland Lot No. 6376	The property comprises 2 units on 4th floor in a 21-storey (including a meazzanine floor) commercial building completed in about 1986. The total gross floor area of the property is approximately 2,796 sq.ft. (259.75 sq.m.) wheres the total saleable area is approximately 2,111 sq.ft. (196.12 sq.m.). The property is held under four Government Leases (re: ILs 6455, 7705, 7706 and 7707) and a Conditions of Exchange No. 4391 (re: IL6376RP) each for a lease term of 75 years from 29th June, 1949 (re: IL6455 only) and 26th January, 1949 (re: ILs7705-7707, IL6376RP).	Unit A is currently let for a term of 2 years from 15th December, 2000 to 14th December, 2002 at a monthly rent of HK$10,230 exclusive of rates and management fee whereas Unit B is currently let for a term of 1 and 1/2 years from 15th June, 2001 to 29th December, 2002 at a monthly rent of HK$17,500 exclusive of rates and management fee	HK$5,500,000 (100% interest attributable to the Group: HK$5,500,000)

Notes:

(1) The registered owner of the property is Wisetime Development Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of Fortis Bank Asia HK.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
9	Unit Nos. 1022 on 10th Floor, Nan Fung Centre, Nos. 264-298 Castle Peak Road and Nos. 64-98 Sai Lau Kok Road, Tsuen Wan, New Territories 825/672977 shares of and in Tsuen Wan Town Lot No. 258	The property comprises an office unit on the 10th floor in a 24-storey commercial complex with office tower and shopping arcade completed in about 1983. The gross floor area of the property is approximately 857 sq.ft. (79.61 sq.m.) and the saleable area is approximately 595 sq.ft. (55.28 sq.m.). The property is held under New Grant No. 5922 for a term of 99 years less the last 3 days thereof from 1st July, 1898. The said term has been extended until 30th June, 2047 by virtue of Section 6 of New Territories Leases (Extension) Ordinance 1988.	The property is currently let for a term of 2 years from 1st May, 2000 to 30th April, 2002 at a monthly rent of HK$12,000 exclusive of rates and management fee. The said tenancy is renewed to 30th October, 2002 at a monthly rent of HK$8,150 exclusive of rates and management fee.	HK$1,500,000 (100% interest attributable to the Group: HK$1,500,000)

Notes:

(1) The registered owner of the property is Power Sound Development Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of Bank of China (Hong Kong) Limited.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
10	Flat A2 on 1st Floor, Carnarvon Mansion, Nos. 8-12E Carnarvon Road and Nos. 8A-8H, 8J & 8K Humphreys Avenue, Tsim Sha Tsui, Kowloon 1/96 share of and in Kowloon Inland Lot No. 7936	The property comprises an office unit on 1st floor of a 12-storey composite building completed in about 1960. The saleable area of the property is approximately 657 sq.ft. (61.04 sq.m.). The property is held under Conditions of Regrant No. 6385 for a term of 150 years from 24th June, 1889. The government rent payable for the property is HK$10 per annum and the determined annual installment of premium is HK$272.	The property is currently let for a term of 2 years from 3rd April, 2001 to 2nd April, 2004 at a monthly rent of HK$20,000 exclusive of rates and management fee.	HK$1,600,000 (100% interest attributable to the Group: HK$1,600,000)

Notes:

(1) The registered owner of the property is Everspread Development Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of Bank of China (Hong Kong) Limited.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
11	Unit Nos. 4, 5, 6, 7 and 8 on 3rd Floor, Houston Centre, No. 63 Mody Road, Tsim Sha Tsui, Kowloon 164/8410 shares of and in Kowloon Inland Lot No. 10588	The property comprises five shop units on 3rd floor in a 16-storey commercial building completed in about 1981. The total gross floor area of the property is approximately 11,700 sq.ft. (1,086.96 sq.m.) and the saleable area is approximately 7,207 sq.ft. (669.60 sq.m.). The property is held under Conditions of Sale No. 11183 for a term of 75 years from 3rd March, 1978 renewable for a further term of 75 years.	The property is currently vacant.	HK$14,000,000 (100% interest attributable to the Group: HK$14,000,000)

Notes:

(1) The registered owner of the property is Paraford Investment Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of Liu Chong Hing Bank Limited.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
12	Unit No. 78 on 2nd Floor, Houston Centre, No. 63 Mody Road, Tsim Sha Tsui, Kowloon 4/8410 shares of and in Kowloon Inland Lot No. 10588	The property comprises a shop unit on the 2nd floor of a 16-storey commercial building completed in about 1981. The gross floor area of the property is approximately 247 sq.ft. (22.95 sq.m.) and the saleable area is approximately 176 sq.ft. (16.35 sq.m.). The property is held under Conditions of Sale No. 11183 for a term of 75 years from 3rd March, 1978 renewable for a further term of 75 years.	The property is currently vacant.	HK$300,000 (100% interest attributable to the Group: HK$300,000)

Notes:

(1) The registered owner of the property is Multilink Continental Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of Fortis Bank Asia HK.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
13	Four Seas Jade Centre, Nos. 530, 532, 534 and 536 Canton Road, Yau Ma Tei, Kowloon Kowloon Inland Lot Nos. 8427, 8368, 8408 and 8357	The property comprises a 4-storey (including a mezzanine floor) commercial building completed in about 1960's. The ground floor is designed as a shopping arcade of 34 shop units, one of which is the management office, and the mezzanine to 2nd floor is for office use. Vertical movement within the building is facilitated by two common staircases. The total site area of the property is approximately 2,392 sq.ft. (222.2 sq.m.) The total saleable area of the property is approximately 7,759 sq.ft. (720 sq.m.) plus roof area of approximately 1,000 sq.ft. (92.90 sq.m.). The property is held under four Conditions of Regrant Nos. 7429, 7350, 7458 and 7427 each for a term of 150 years from 26th July, 1886. The total government rent payable is HK$220 per annum. The premium for Kowloon Inland Lot No. 8427 is HK$67,660, whereas the premium for Kowloon Inland Lot No. 8408 is HK$65,900 by 21 annual installments.	Shop Units 4, 5, 6, 7, 9, 10, 12, 14, 15, 22, 25, 32 and 33 on ground floor, Offices on mezzanine floor and Rooms 301 to 312 on 3rd floor are currently let under various tenancies with the latest term expiring on 30th November, 2002 at a total monthly rent of HK$99,800. The remaining units are vacant with Shop Unit 24 on ground floor being devoted to management/office use and Room 212 being occupied by the owner for letting of safety boxes.	HK$23,000,000 (100% interest attributable to the Group: HK$23,000,000)

Notes:

(1) The registered owner of the property is Tamon Development Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a legal charge/mortgage in favour of The Bank of East Asia, Limited.

(3) According to the information provided by the Group, the roof of the property has been partly enclosed in order to provide additional office space. In the absence of approval documents and for the purpose of this valuation, we have valued the property in its original state and condition, and disregarded any additional value brought about by this alteration and addition and/or any costs of relevant reinstatement work, if any.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
14	Flat B1 on 5th Floor and Car Parking Space No. 18 on Ground Floor, Beverley Heights, No. 67 Beacon Hill Road, Kowloon Tong, Kowloon 21/1524 shares of and in New Kowloon Inland Lot No. 4772	The property comprises a domestic unit on 5th floor and a car parking space on ground floor in a 13-storey residential building completed in about 1970. The saleable area of the property (excluding the car parking space) is approximately 1,100 sq.ft. (102.19 sq.m.). The property is held under Conditions of Sale No. 8468 for a term of 99 years less the last 3 days thereof from 1st July, 1898. The said term has been extended until 30th June, 2047 by virtue of Section 6 of New Territories Leases (Extension) Ordinance 1988.	The property is currently vacant.	HK$3,380,000 (100% interest attributable to the Group: HK$3,380,000)

Notes:

(1) The registered owner of the property is Power Sound Development Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of Bank of China (Hong Kong) Limited.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
15	Flat No. 1211 on 12th Floor, Flat Nos. 1303, 1315 on 13th Floor, Flat Nos. 1513 and 1521 on 15th Floor, Flat Nos. 1603, 1622 on 16th Floor and Flat No. 2004 on 20th Floor, Bell House, Nos. 525 to 543 Nathan Road, Yau Ma Tei, Kowloon 4104/304316 shares of and in Inland Lot No. 10188	The property comprises 8 domestic units on various floors in a 22-storey (including a basement) composite building completed in about 1972. The total saleable area of the property is approximately 4,082 sq.ft. (379.23 sq.m.). The property is held under Conditions of Grant No. 10400 for a term of 150 years from 1st January, 1898. Total government rent of the property is HK$38 per annum and the total determined annual installment of premium is HK$18,854.	The flats of the property are currently let under various tenancies with the latest term expiring on 30th April, 2004 at a total monthly rent of HK$48,800.	HK$7,900,000 (100% interest attributable to the Group: HK$7,900,000)

Notes:

(1) The registered owner of the property is Wonderful Regent Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of Bank of China (Hong Kong) Limited.

(3) The property was acquired on 10th October, 2001 at a consideration of HK$7,300,000.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
16	Workshop D1, E1 and F1 on 5th Floor, Hang Fung Industrial Building, Phase 1, No. 2G Hok Yuen Street, Hung Hom, Kowloon 23/634 shares of and in the Remaining Portion of Section B of Kowloon Marine Lot No. 69, Section C of Kowloon Marine Lot No. 69, the Remaining Portion of Section B of Kowloon Marine Lot No. 86, Section C of Kowloon Marine Lot No. 86 and Sub-section 1 of Section J of Kowloon Marine Lot No. 40	The property comprises three workshop units on 5th floor of a 9-storey industrial building erected over a 4-storey common podium completed in about 1979. The saleable area of the property is approximately 11,941 sq.ft. (1,109.35 sq.m.). The property is held under three government leases for terms of 75 years renewable for 75 years from 15th September, 1897 (re: KML40 s.J ss.1) and from 23rd July, 1900 (re: the rest of leases).	Workshop D1 is currently let for a term of 1 year from 1st February, 2002 to 31st January, 2003 at a monthly rent of HK$10,930 exclusive of rates and management fee. Workshop E1 is currently let for a term of 2 years from 24th November, 2001 to 23rd November, 2003 at a monthly rent of HK$14,500 inclusive of rates and management fee whereas Workshop F1 is let for a term of 1 year from 1st February, 2002 to 31st January, 2003 at a monthly rent of HK$19,540 exclusive of rates and management fee.	HK$4,100,000 (100% interest attributable to the Group: HK$4,100,000)

Notes:

(1) The registered owner of the property is Right Trinity Properties Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of Fortis Bank Asia HK.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
17	2nd Floor, No. 10A Austin Avenue, Tsim Sha Tsui, Kowloon 1/4 share of and in Kowloon Inland Lot No. 10515	The property comprises the whole of 2nd floor of a 4-storey composite building completed in about 1954. The saleable area of the property approximately 680 sq.ft. (63.17 sq.m.). The property is held under Conditions of Regrant No. 11152 for a term of 150 years from 23rd June, 1902. The government rent payable for the property is HK$228 per annum and the determined annual installment of premium is HK$18,136.	The property is currently let at a monthly rent of HK$6,667 exclusive of rates and management fee on monthly basis.	HK$1,350,000 (100% interest attributable to the Group: HK$1,350,000)

Notes:

(1) The registered owner of the property is Global Trinity Properties Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of The National Commercial Bank Limited (presently known as Bank of China (Hong Kong) Limited).

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
18	Unit 14 on 6th Floor, Nan Fung Commercial Centre, No. 19 Lam Lok Street, Kowloon Bay, Kowloon 1580/530000 shares of and in New Kowloon Inland Lot No. 6145	The property comprises an office unit on the 6th floor of an 19-storey commercial building completed in 1993. The gross floor area of the property is approximately 1,580 sq.ft. (146.79 sq.m.) and its saleable area is approximately 1,172 sq.ft. (108.88 sq.m.). The property is held under Conditions of Sale No. 12118 for a term from 11th December, 1990 to 30th June, 2047.	The property is currently let for a term of 1 year from 2nd May, 2001 to 1st May, 2002 at a monthly rent of HK$15,000 exclusive of rates, government rent and management fee.	HK$1,700,000 (100% interest attributable to the Group: HK$1,700,000)

Notes:

(1) The registered owner of the property is South China Information and Technology (China) Limited, a wholly-owned subsidiary of the Company.

(2) The property is subject to a legal charge to secure general banking facilities in favour of Fortis Bank Asia HK.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
19	Flats A, B, C and D on 1st Floor, Fu Fung Building, Nos. 5-7 Tsing Fung Street, North Point, Hong Kong 4/21 shares of and in the Remaining Portion of Inland Lot Nos. 2371 and 3766	The property comprises four residential units on the 1st floor of a 6-storey composite building completed in 1974. The total gross floor area of the property is approximately 2,296 sq.ft. (213.30 sq.m.) and its total saleable area is approximately 1,548 sq.ft. (143.81 sq.m.) The property is held under two government leases for a term of 75 years from 13th February, 1922 renewable for a further term of 75 years.	The property is currently vacant.	HK$3,000,000 (100% interest attributable to the Group: HK$3,000,000)

Notes:

(1) The registered owner of the property is South China Strategic Limited, a wholly-owned subsidiary of the Company.

(2) The property is subject to a charge in favour of The Kwangtung Provincial Bank (presently known as Bank of China (Hong Kong) Limited).

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
20	1st Floor of Block G, Kimberley Mansion, No. 15 Austin Avenue, Tsim Sha Tsui, Kowloon 1/16 share of and in Section E of Sub-section 1 of Section A and Sub-section 6 of Section B of Kowloon Inland Lot No. 6018	The property comprises a residential unit on the 1st floor of a 15-storey composite building completed in 1960. The saleable area of the property is approximately 659 sq.ft. (61.22 sq.m.). The property is held under a government lease for a term of 150 years from 24th June, 1888.	The property is currently vacant.	HK$1,500,000 (100% interest attributable to the Group: HK$1,500,000)

Notes:

(1) The registered owner of the property is Tsuen Wan Shing On Estate Company Limited, a wholly-owned subsidiary of the Company.

(2) The property is subject to a charge in favour of The Kwangtung Provincial Bank (presently knowns as Bank of China (Hong Kong) Limited).

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
21	Unit A on Ground Floor also known as Storage A, Mai Luen Industrial Building, Nos. 23-31 Kung Yip Street, Kwai Chung, New Territories 80/1840 shares of an in Kwai Chung Town Lot No. 307	The property comprises a workshop unit on the ground floor of a 25-storey industrial completed in 1979. The saleable area of the property is approximately 18,358 sq.ft. (1,705.50 sq.m.) plus a yard area of 1,688 sq.ft. (156.82 sq.m.). The property is held under a government lease for a term of 99 years less the last 3 days thereof from 1st July, 1898. The said term has been extended until 30th June, 2047 by virtue of Section 6 of the New Territories Leases (Extension) Ordinance 1988.	The property is currently let for a term of 6 years from 15th October, 2001 to 14th October, 2007 at a monthly rent of HK$70,000 exclusive of rates and management fee.	HK$13,800,000 (100% interest attributable to the Group: HK$13,800,000)

Notes:

(1) The registered owner of the property is Phipnic Investments Limited, a wholly-owned subsidiary of the Company.

(2) The property is subject to a charge in favour of The Kwangtung Provincial Bank (presently known as Bank of China (Hong Kong) Limited).

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
22	Units J and L on 2nd Floor, Private Car Parking Space Nos. G20 and G22 and Lorry Parking Space Nos. L3 and L4 on Ground Floor, Kaiser Estate 2nd Phase, Nos. 47-53 Man Yue Street, Hung Hom, Kowloon 207/5000 shares of and in the Remaining Portion of Section H of Kowloon Inland Lot No. 40	The property comprises two industrial units on the 2nd floor plus two private car parking spaces and two lorry parking spaces on the ground floor of a 14-storey industrial building completed in 1979. The total gross floor area (excluding the parking spaces) of the property is approximately 17,750 sq.ft. (1,649.02 sq.m.) and its total saleable area (excluding the parking spaces) is 14,869 sq.ft. (1,381.36 sq.m.). The property is held under a government lease for a term of 75 years from 15th September, 1897 renewable for a further term of 75 years.	All units are currently let under various tenancies with the latest term expiring on 7th April, 2005 at an aggregate monthly rent of HK$73,775.	HK$10,800,000 (100% interest attributable to the Group: HK$10,800,000)

Notes:

(1) The registered owner of the property is Tsuen Wan Shing On Estate Company Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a legal charge in favour of Fortis Bank Asia HK to secure general banking facilities.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
23	The Centrium at Inland Lot No. 8828, No. 60 Wydham Street, Central, Hong Kong Whole of Inland Lot No. 8828	The property comprises a 33-storey commercial/office building erected on a site with an area of approximately 17,061 sq.ft. (1,585 sq.m.) and was completed in 2001. It has retail space/restaurant on the Ground, Upper Ground Floors, office space on the 10th to 38th Floors and a total of 47 car parking spaces (including 7 spaces for loading/unloading) on the 3rd to 9th Floors (there being no 4th, 13th, 14th, 24th and 34th Floors). The total gross floor area of the property (exclusive of the car parking floors) is approximately 290,748 sq.ft. (27,011 sq.m.). The property is held from the government under the Conditions of Sale No. 12385 for a lease term commencing from 18th March, 1996 and expiring on 30th June, 2047.	Various shop units with a total gross floor area of 15,790 sq.ft. have been let at a total monthly rent of approximately HK$588,417 for terms of 3 years with options to renew for further terms of 2 to 3 years. Various units of the office portion with a total gross floor area of 99,663 sq.ft. has been let at a total monthly rent of approximately HK$1,640,839 for terms of 2 to 3 years. All monthly rents are exclusive of rates, management fee, air-conditioning charges, cleaning charges and tenant's outgoings. The remainder of the property with a total gross floor area of approximately 175,295 sq.ft. is vacant and open for lease.	HK$1,100,000,000 (30% interest attributable to the Group: HK$330,000,000)

Notes:

(1) The registered owner of the property is Firm Wise Investment Limited, a 30%-owned associate of the Company.

(2) The property is subject to a Debenture, Supplement to Debenture, Second Supplement to Debenture and Third Supplemental Debenture in favour of The Bank of East Asia, Limited.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
24	Ground Floor to 5th Floor (The Whole Block), Nos. 18-20 Ming Fung Street, Wong Tai Sin, Kowloon All shares of and in New Kowloon Inland Lot No. 4514	The property comprises a whole block of a 6-storey tenement building. The site area of the property is approximately 1,800 sq.ft. (167.22 sq.m.). The property is held under Conditions of Grant No. 7347 for a term of 99 years less the last 3 days thereof from 1st July, 1898. The said term has been extended until 30th June, 2047 by virtue of Section 6 of the New Territories Leases (Extension) Ordinance 1988. The government rent payable of the lot is 3% of the rateable value per annum for the time being of the lot.	Ground floor shops of the property are currently let under 2 tenancies for terms of 2 years. Shop 18 is let at a monthly rent of HK$13,000 from 3rd January, 2002. Shop 20 is let at a monthly rent of HK$12,000 from 1st December, 2001. The upper residential units are currently vacant to let.	HK$16,000,000 (100% interest attributable to the Group: HK$16,000,000)

Notes:

(1) The registered owner of the property is Newbase Investments Limited, which is a wholly-owned subsidiary of the Company.

(2) The property is subject to a mortgage in favour of The Hongkong Chinese Bank, Limited to secure general banking facilities.

VALUATION CERTIFICATE

Group II — Property interests held for sale by the Group in the PRC

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
25	Unit C on 15th Floor, World Trade Plaza, Wusi Road, Fuzhou, Fujian Province, the PRC	The property comprises an office unit on the 15th floor of a 34-storey (including two basement levels) commercial building completed in about 1993. The gross floor area of the property is approximately 4,445 sq.ft. (412.98 sq.m.). The land use rights of the property were granted for a term of 50 years commencing from 15th April, 1998 and expiring on 14th April, 2048.	The property is currently vacant.	HK$1,600,000 (100% interest attributable to the Group: HK$1,600,000)

Notes:

(1) Pursuant to a Real Estate Title Certificate (榕房權證R字第9801191號), the property is owned by Thousand Property Investments Limited (鼎盛物業投資有限公司).

(2) According to the opinion given by the PRC legal adviser to the Group, the property is legally vested in the Group.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
26	Grand Hotel Four Seas, Kai Cheung Da Dao, Danshui, Huiyang City, Guangdong Province, the PRC	The property comprises an 9-storey hotel building with 110 guest rooms, restaurants and business center completed in about 1992. The site area of the property is approximately 8,278 sq.ft. (769 sq.m.). The gross floor area of the property is approximately 82,740 sq.ft. (7,686.54 sq.m.). The land use rights of the property were granted for a term commencing from 24th September, 1998 and expiring on 24th March, 2042.	The property is currently vacant.	HK$15,000,000 (100% interest attributable to the Group: HK$15,000,000)

Notes:

(1) Pursuant to a State-owned Land Use Rights Certificate (惠陽國用(98)字第13210101174號) and a Building Ownership Certificate (粵房地產證字第C0203704號), the property is owned by Full Guests Hotel Investment Limited (富滿酒店投資有限公司).

(2) According to the opinion given by the PRC legal adviser to the Group, the property is legally vested in the Group.

VALUATION CERTIFICATE

Group III — Property interests held for development by the Group in the PRC

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
27	Site located at Qingdao National Shilaoren Tourist Area (known as Land Plot No. 1-3-3), Qingdao, Shandong Province, the PRC	The property comprises a vacant site with a site area of approximately 537,973 sq.ft. (49,978.95 sq.m.). It is proposed to be developed into a residential development known as Ocean Jazz Villa, comprising thirty-nine blocks of 2 to 3-storey villas and three 4 to 5-storey apartment buildings together with a clubhouse and ancillary facilities. The total gross floor area of the proposed development is approximately 279,864 sq.ft. (26,000 sq.m.). The land use rights of the property were granted for a term of 50 years commencing from 12th August, 1993 and expiring on 12th August, 2043.	The property is currently vacant.	No Commercial Value (60% contractual interest attributable to the Group: No Commercial Value)

Notes:

(1) Pursuant to an Equity Joint Venture Contract (referred to as the "Contract") dated 6th October, 1994 entered into between Qingdao Jian Qing Real Estate Industry Company (青島建青房產實業公司) (referred to as "Party A") and South China Strategic Property Development Limited (南華策略地產發展有限公司) (formerly known as Mandarin Dragon Property Development Limited (東龍地產發展有限公司)) (referred to as "Party B"), which is a 100% owned subsidiary of the Company, both parties have agreed to establish an equity joint venture company known as Qingdao Dong Jian Real Estate Co., Ltd. (青島東建房地產開發有限公司) (referred to as "Dongjian") to carry out development of the property. Under the Contract, Party A is responsible for contributing the land use rights of the property and Party B is responsible for contributing the capital for development of the property. The development period of Dongjian is for a term of 3 years from 12th August, 1993 to 12th August, 1996.

Under the Contract, the PRC joint venture partner is obliged to contribute the land use rights of the property to the equity joint venture company. However, as advised by the Company, the PRC joint venture partner has not fulfilled such obligation under the Contract.

As the land use rights of the property are vested in the PRC joint venture partner (i.e. Party A) together with the fact that such development period has not been renewed by both parties since its expiration on 12th August, 1996, we cannot attribute any commercial value to this property.

(2) As per information provided by the Company, the development details of the property are summarized as in the following:

Existing stage of development:	The property was a bare site as at the date of valuation.
Estimated completion date:	It is inapplicable under existing status of the property.
Estimated cost of carrying out/ completing the development :	It is inapplicable under existing status of the property.
Estimated capital value after completion:	It is inapplicable under existing status of the property.
Planning or other regulatory consents for development:	It is inapplicable under existing status of the property.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
28	Site located at the south of Zhanjiangan Lu and west of Xujiamaidao Hotel, Qingdao, Shandong Province, the PRC	The property comprises a vacant site with a site area of approximately 124,007 sq.ft. (11,520.52 sq.m.). It is proposed to be developed into a holiday resort achieving a plot ratio of 0.45. The land use rights of the property were granted for a term of 50 years commencing from 22nd December, 1993 and expiring on 22nd December, 2043.	The property is currently vacant.	HK$5,000,000 (100% interest attributable to the Group: HK$5,000,000)

Notes:

(1) Pursuant to a State-owned Land Use Rights Grant Contract ((93)青證字第5302號), the land use rights of the property have been granted to South China Strategic Property Development Limited (南華策略地產發展有限公司) (formerly known as Mandarin Dragon Property Development Limited (東龍地產發展有限公司)) which is a 100% owned subsidiary of the Company.

(2) According to the opinion given by the PRC legal adviser to the Group, the property is legally vested in the Group.

(3) As per information provided by the Company, the development details of the property are summarized as in the following:

Existing stage of development:	The property was a bare site as at the date of valuation.
Estimated completion date:	The property is served as a land bank and there is no finalized development plan. Therefore, the estimated completion date cannot be fixed.
Estimated cost of carrying out/ completing the development:	No construction cost has been incurred. However, based on the proposed development, the total cost of construction is estimated to be approximately RMB14,000,000.
Estimated capital value after completion:	Based on the proposed development, the capital value after completion is estimated to be approximately RMB25,000,000.
Planning or other regulatory consents for development:	The salient development conditions as stipulated in the aforesaid State-owned Land Use Rights Grant Contract are summarized as below:

a.	Use:	Holiday resort
b.	Building covenant:	The property shall be developed within 36 months from the date of issue of the Construction Land Use Planning Permit.
c.	Site coverage:	20% to 30%
d.	Plot ratio:	0.45
e.	Building height control:	18 metres (exclusive of basement)

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
29	Dongguan Lion City, Liaobu Zhen, Dongguan, Guangdong Province, the PRC	The property comprises the unsold portion of Dongguan Lion City (the "Lion City"). The Lion City is planned to be developed by 5 phases into a residential development comprising a range of 4 to 7-storey residential buildings and villas together with associated shopping, institutional and recreational facilities. The total gross floor area of the Lion City, upon completion, will be approximately 2,455,053 sq.ft. (228,080 sq.m.) whereas the total residential and commercial gross floor areas are 2,127,268 sq.ft. (197,628 sq.m.) and 327,785 sq.ft. (30,452 sq.m.) respectively. The land use rights of the property were granted for a term of 70 years with the latest terms expiring in January 2064.	The undeveloped portion of the property is currently held by the Group for development purposes. The developed units are held for sale purpose.	HK$66,000,000 (60% interest attributable to the Group: HK$39,600,000)

Notes:

(1) Pursuant to 5 State-owned Land Use Rights Certificates, the land use rights of the property have been granted to (東莞市寮步鎮房地產開發公司), a 60%-owned subsidiary of the Company. Details of which are listed as below:

No.	Land Use Rights Certificate No.	From	To	Area *(sq.m.)*
1	東府國用 (1994) 字第特 113號	January 1994	January 2064	2,880
2	東府國用 (1993) 字第特 310號	June 1993	June 2063	27,475
3	東府國用 (1993) 字第特 278號	June 1993	June 2063	37,962
4	東府國用 (1994) 字第特 121號	January 1994	January 2064	9,623
5	東府國用 (1993) 字第特 139號	March 1993	March 2063	40,626

(2) According to the opinion given by the PRC legal adviser to the Group, the property is legally vested in the Group.

(3) As per information provided by the Company, the development details of the property are summarized as in the following:

Existing stage of development:	The property was partly developed as at the date of valuation. About 40 mu of land has been developed between the years of 1997 and 2000 and has been partly sold. The unsold developed portion contains 160 residential units (including the villas) with a gross floor area of approximately 98,930 sq.ft. (9,192 sq.m.) and a shopping arcade with a gross floor area of approximately 48,970 sq.ft. (4,550 sq.m.).
Estimated completion date:	The remaining undeveloped portion of the property is served as a land bank and there is no finalized development plan. Therefore, the estimated completion date cannot be fixed.
Estimated cost of carrying out/ completing the development:	The total cost of construction for the developed portion is approximately HK$48,000,000. No construction cost has been incurred for the undeveloped portion of the property. However, based on the proposed development, the total cost to complete the undeveloped portion is estimated to be approximately RMB450,000,000.
Estimated capital value after completion:	The capital value of the proposed development on the undeveloped portion of the property upon completion is estimated to be approximately RMB750,000,000.
Planning or other regulatory consents for development:	A Construction Land Use Planning Permit and a Construction Works Planning Permit were issued by 寮步城建規劃辦公室 both dated 8th March, 1994 for the proposed development. Besides, a Commodity Flats Construction Permit was issued by 東莞市建設委員會 dated 20th December, 1993 permitting construction works on the property. No restrictive conditions on development of the property are included in these documents.

VALUATION CERTIFICATE

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
30	新華豪庭 (formerly named as "Charming Square"), Fahuazhen Lu, Land Lot No. 215, Changning District, Shanghai, the PRC	The property comprises a mixed commercial and residential development, which is under construction on a site with a site area of approximately 50,698 sq.ft. (4,710 sq.m.). The proposed development consists of two 19-storey residential buildings erected over a 2-storey shopping arcade and a car park basement. The proposed development, upon completion, will have a total gross floor area of approximately 255,214 sq.ft. (23,710 sq.m.). The land use rights of the property were granted for a term of 70 years commencing from 2nd June, 1993 and expiring on 1st June, 2063.	The property is currently under construction.	HK$90,000,000 (20.4% interest attributable to the Group: HK$18,360,000)

Notes:

(1) Pursuant to a State-owned Land Use Rights Certificate (滬國用(批)宮第001176號), the land use rights of the property have been granted to Shanghai Qiao Ning Real Estate Development Co., Ltd (上海喬寧房地產發展有限公司), a 20.4% owned associate of the Company.

(2) According to the opinion given by the PRC legal adviser to the Group, the property is legally vested in the Group.

(3) As per information provided by the Company, the development details of the property are summarized as in the following:

Existing stage of development:	The property was under construction as at the date of valuation.
Estimated completion date:	The proposed development is estimated to be completed in about March, 2003.
Estimated cost of carrying out/ completing the development:	The total cost of construction is estimated to be approximately RMB106,223,300 out of which an amount of RMB60,293,300 had been expended up the date of valuation.
Estimated capital value after completion:	The capital value of the proposed development upon completion is estimated to be about RMB240,000,000.
Planning or other regulatory consents for development:	Construction Works Planning Permit was issued by 上海市建設規劃管理局 dated 23rd February, 1994 for construction on the property. No restrictive conditions on development of the property are included in this document.

VALUATION CERTIFICATE

Group IV — Property interest held for owner-occupation by the Group in the PRC

No.	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31st March, 2002
31	Unit Nos. 3 to 9 on Level 10 of Block D, Ke Yuan 1st Road, Jiu Long Po District, Chongqing City, the PRC	The property comprises seven office units on the 10th floor of a 15-storey building completed in about 2000. The total gross floor area of the property is approximately 13,809 sq.ft. (1,282.93 sq.m.). The pre-sale contracts of the property were granted for a term commencing from September 2000 and expiring on September 2045.	The property is currently occupied for office purposes.	HK$2,700,000 (60% interest attributable to the Group: HK$1,620,000)

Notes:

(1) Pursuant to 6 Chongqing City Commodity Flats Pre-sale Contracts (登記號(2000)預售(購)第 02332號, 01946號, 01947號, 01945號, 01953號 and 01948號), the property is owned by South China Zenith Information Technology Co., Ltd (南華中天信息技術有限公司), a 60% owned subsidary of the Company.

(2) According to the opinion given by the PRC legal adviser to the Group, the property is legally vested in the Group.

This explanatory statement contains all the information required pursuant to Rule 10.06(1)(b) and other relevant provisions of the Listing Rules.

THE SHARE REPURCHASE RULES

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their fully-paid up shares on the Stock Exchange subject to certain restrictions. In this regard, the definition of "Shares" in the Listing Rules would, and where used below in this explanatory statement (including the use of the word "Share") shall (unless the context otherwise requires) include shares of all classes and securities which carry a right to subscribe or purchase shares in SCIT.

EXERCISE OF THE REPURCHASE MANDATE

Exercise in full of the Repurchase Mandate, on the basis of 3,340,264,902 New Shares of SCIT in issue as the Capital Reorganisation and the Share Consolidation becoming effective and enlarged by the Subscription Shares and on the basis that no new shares of SCIT are issued or repurchased prior to the date of the resolution approving the Repurchase Mandate, could accordingly result in up to 334,026,490 New Shares being repurchased by SCIT during the course of the period from the date of resolution granting the Repurchase Mandate until the earlier of the conclusion of the first annual general meeting of SCIT following the passing of the said resolution or the revocation or variation of the existing repurchase mandate by the Shareholders in general meeting.

REASONS FOR REPURCHASES

The Directors believe that it is in the best interests of SCIT and the Shareholders to have a general authority from the Shareholders to enable the Directors to repurchase securities of SCIT in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets and/or earnings per share of SCIT and will only be made if the Directors believe that such repurchases will benefit SCIT and the Shareholders.

FUNDING OF REPURCHASES

In repurchasing its securities, SCIT may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the laws of the Cayman Islands and, where applicable, the relevant instrument creating the warrants.

Under the Cayman Islands law, purchases may only be effected out of the capital paid up on the purchased shares or out of funds of SCIT otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of SCIT otherwise available for dividend or distribution or out of SCIT's share premium account.

As compared with the position as disclosed in SCIT's most recent published audited accounts for the year ended 31st December 2001, and taking into account the current working capital position of SCIT, the Directors consider that no material adverse effect on the working capital and gearing position of SCIT may result in the event that the Repurchase Mandate was to be exercised in full in the period before the Repurchase Mandate expires. The Directors however do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of SCIT or the gearing levels which in the opinion of the Directors are from time to time appropriate for SCIT.

GENERAL

None of the Directors, and to the best of their knowledge having made all reasonable enquiries, any associates of any Director, have any intention in the event that the Repurchase Mandate is approved by the Shareholders to sell any of SCIT's shares to SCIT.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a share repurchase, a shareholder's proportionate interest in the voting rights of SCIT increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert could as a result of an increase of its or their interest, obtain or consolidate control of SCIT and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, the following persons hold the following percentage of the shares in SCIT:

Name	Number of shares of HK$0.01 each	Percentage of holding
Onswin Limited	431,206,550	63.36%
Grandwood Trading Limited	47,540,000	6.99%
South China Holdings Limited *(Note)*	478,746,550	70.35%

Note: South China Holdings Limited, holding 74.74% the issued share capital of South China Industries Limited which in turn holds 100% and 52.77% of the issued share capital of Onswin Limited and Grandwood Trading Limited respectively, is deemed to be interested in the same parcel of 478,746,550 shares in SCIT.

Apart from the aforesaid shareholders, the Directors are not aware of any single shareholder who holds more than 10% of the issued share capital of SCIT.

Upon completion of the Subscription Agreement, Proper Glory will be interested in approximately 89.81% of the enlarged issued share capital of SCIT. Proper Glory and its directors and the proposed Directors have jointly and severally undertaken to the Stock Exchange that they will take appropriate steps as soon as possible upon completion of the Subscription Agreement to ensure that not less than 25% of the New Shares in issue will be held by the public. If, which is not presently contemplated, SCIT is to exercise the Repurchase Mandate in full after completion of the Subscription Agreement and assuming that 25% of the New Shares then in issue will be held by the public, the percentage shareholding of Proper Glory in SCIT will increase to not more than 83.33%. Proper Glory and its directors and the proposed Directors are fully aware of the requirements under Rule 8.08(1) of the Listing Rules and will ensure that not less than 25% of the New Shares in issue, from time to time, will be held by the public.

The Directors are not aware of any consequences which the exercise in full of the Repurchase Mandate will have under the Takeovers Code. At present, so far as is known to the Directors, no shareholder of SCIT may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that the Directors exercise the power in full to repurchase SCIT's shares pursuant to the Repurchase Mandate.

No connected person (as defined in the Listing Rules) has notified SCIT that he has an intention to sell shares in SCIT to SCIT, or has undertaken not to do so, if the Repurchase Mandate was approved by shareholders of SCIT.

The Company has not repurchased any of its shares, whether on the Stock Exchange or otherwise, during the previous six months.

The highest and lowest prices at which the shares of SCIT have traded on the Stock Exchange during the previous twelve months prior to the date of this circular were as follows:

	Shares	
	Highest	**Lowest**
	HK$	*HK$*
June 2001	0.710	0.520
July 2001	0.700	0.560
August 2001	0.660	0.560
September 2001	0.580	0.460
October 2001	0.620	0.490
November 2001	0.500	0.395
December 2001	0.470	0.390
January 2002	0.570	0.470
February 2002	0.540	0.440
March 2002	0.485	0.395
April 2002	0.520	0.360
May 2002	0.550	0.285

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Takeovers Code and the Listing Rules for the purpose of giving information with regard to SCIT.

The information contained in this circular (other than that relating to Proper Glory and its directors) is supplied by SCIT. The Directors jointly and severally 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, their opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in the circular (other than that relating to Proper Glory and its directors), the omission of which would make any statement in this circular misleading.

The information contained in this circular relating to Proper Glory and its directors is supplied by Proper Glory. The directors of Proper Glory jointly and severally accept full responsibility for the accuracy of the information contained in this circular (other than that relating to the SCIT Group and their respective directors) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, their opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in the circular (other than that relating to the SCIT Group and their respective directors), the omission of which would make any statement in this circular misleading.

2. MARKET PRICES

The table below shows the closing prices of the Existing Shares quoted on the Stock Exchange on (i) the last trading day for each of the six calendar months immediately preceding the Announcement on 2nd May, 2002, (ii) 18th April, 2002, being the last trading day immediately preceding the Announcement and (iii) the Latest Practicable Date:

Date	**Closing price per Share**
	HK$
30th November, 2001	0.41
31st December, 2001	0.47
31st January, 2002	0.50
28th February, 2002	0.47
28th March, 2002	0.41
30th April, 2002	0.50
18th April, 2002	0.50
Latest Practicable Date	0.385

The highest and lowest closing prices per Existing Share recorded on the Stock Exchange during the period commencing from the date falling six months prior to the date of the Subscription Agreement and ending on the Latest Practicable Date were HK$0.56 on 8th, 21st and 22nd January, 2002 and HK$0.335 on 8th May, 2002, respectively.

3. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors in the share capital of SCIT or any associated corporation (within the meaning of the SDI Ordinance) notifiable to SCIT and the Stock Exchange under Section 28 of the SDI Ordinance and including interests in which a Director has taken under Section 31 or Part I of the Schedule to the SDI Ordinance or required to be entered into the register under Section 29 of the SDI Ordinance or required pursuant to the Model Code for Securities Transaction by Directors of Listed Companies under the Listing Rules are as follows:

(a) **Ultimate holding company — South China Holdings Limited**

Directors	**Number of ordinary shares** **Personal interests** *(Note a)*	**Corporate interests** *(Note a)*	**Number of outstanding share options** *(Note b)*
Ng Hung Sang, Robert	71,587,200	1,272,529,612	16,796,000
Richard Howard Gorges	—	487,949,760	16,792,000
Cheung Choi Ngor, Christina	—	487,949,760	16,792,000

(b) **Intermediate holding company — South China Industries Limited**

Directors	**Number of ordinary shares** **Personal interests**	**Corporate interests**	**Number of outstanding share options** *(Note c)*
Ng Hung Sang, Robert	—	—	13,000,000
Richard Howard Gorges	—	—	13,000,000
Cheung Choi Ngor, Christina	—	—	13,000,000

(c) **Fellow subsidiary — South China Brokerage Company Limited**

Directors	**Number of ordinary shares** **Personal interests**	**Corporate interests**	**Number of outstanding share options** *(Note d)*
Ng Hung Sang, Robert	7,378,000	—	100,000,000
Richard Howard Gorges	16,174,000	—	50,000,000
Cheung Choi Ngor, Christina	—	—	100,000,000

(d) **Fellow subsidiary — The Express News Limited**

Director	**Number of ordinary shares** Personal interests	Corporate interests *(Note e)*
Ng Hung Sang, Robert	—	30

Notes:

a. Ng Hung Sang, Robert, Richard Howard Gorges and Cheung Choi Ngor, Christina, through companies wholly-owned and controlled by them, have interests in 487,949,760 shares in South China Holdings Limited. Ng Hung Sang, Robert personally owns 71,587,200 shares and through companies wholly-owned and controlled by him, beneficially owns 784,579,852 shares in South China Holdings Limited.

b. Under the employee share option scheme of South China Holdings Limited adopted on 29th July, 1992, the options are exercisable on or before 28th July, 2002 at the respective initial subscription prices of HK$1.36 and HK$0.88 per share (subject to adjustment).

c. Under the employee share option scheme of South China Industries Limited adopted on 10th August, 1992, the options are exercisable on or before 28th July, 2002 at an initial subscription price of HK$1.18 per share (subject to adjustment).

d. Under the employee share option scheme of South China Brokerage Limited adopted on 12th July, 1993, the options are exercisable on or before 11th July, 2003 at an initial subscription price of HK$1.80 per share (subject to adjustment).

e. Ng Hung Sang, Robert and his family, through a company wholly-owned and controlled by them, have interests in 30 shares in the Express News Limited.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors has for the purposes of section 28 of SDI Ordinance, nor are they taken to or deemed to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance, any interests in the equity or debt securities of SCIT or any associated corporations within the meaning of the SDI Ordinance or any interests which are required to be entered in the register kept by SCIT pursuant to section 29 of the SDI Ordinance or any interests which are required to be notified to SCIT and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies under the Listing Rules.

Save as disclosed in the section headed “Service contract” below, none of the Directors was materially interested in any contract or arrangement entered into by any member of the SCIT Group since 31st December, 2001, being the date of SCIT’s latest published audited accounts and which was significant in relation to the business of the SCIT Group.

As at the Latest Practicable Date, each of Dao Heng Securities, CEF Capital, KGI Asia, Baron Capital, FPDSavills (Hong Kong) Limited and BMI Appraisals Limited has no shareholding in any member of the SCIT Group and does not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the SCIT Group.

Save as disclosed in the letter from the Board, none of the Directors, the proposed Directors, Dao Heng Securities, CEF Capital, KGI Asia, Baron Capital, FPDSavills (Hong Kong) Limited nor BMI Appraisals Limited is interested, directly or indirectly, in any assets which had since 31st December, 2001 (being the date to which the latest published audited financial statements of SCIT were made up) been acquired or disposed of by or leased to any member of the SCIT Group, or are proposed to be acquired or disposed of by or leased to any member of the SCIT Group.

For the period between 2nd May, 2002 (being the date of the Announcement) and the Latest Practicable Date, none of Dao Heng Securities, KGI Asia, Baron Capital, FPDSavills (Hong Kong) Limited nor BMI Appraisals Limited had dealt in any securities of SCIT.

For the period between the six months prior to 2nd May, 2002 (being the date of the Announcement) and the Latest Practicable Date, CEF Capital had not dealt in any securities of SCIT.

4. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, the following persons (not being a Director or the chief executive of SCIT) were, directly or indirectly, interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the SCIT Group.

Name of shareholder	Number of ordinary shares
Onswin Limited	431,206,550
Grandwood Trading Limited	47,540,000
South China Holdings Limited *(Note)*	478,746,550

Note: South China Holdings Limited, holding 74.74% the issued share capital of South China Industries Limited which in turn holds 100% and 52.77% of the issued share capital of Onswin Limited and Grandwood Trading Limited respectively, is deemed to be interested in the same parcel of 478,746,550 shares in SCIT.

5. ADDITIONAL DISCLOSURE OF SHAREHOLDINGS AND DEALINGS PURSUANT TO THE TAKEOVERS CODE

As at the Latest Practicable Date,

(a) SCIT did not have any interest in shares of Proper Glory, and had no dealings in shares of Proper Glory during the period beginning 6 months prior to 2nd May, 2002, the date of the Announcement, and ending with the Latest Practicable Date.

(b) None of the Directors had any interest in the Existing Shares save as disclosed in the section headed "Disclosure of interests" in this appendix of this circular.

(c) None of the Directors had dealt in value in the Existing Shares during the period beginning 6 months prior to 2nd May, 2002, the date of the Announcement, and ending with the Latest Practicable Date.

(d) None of the Directors had any interest in the shares of Proper Glory.

(e) There were no dealings in the shares of Proper Glory by the Directors during the period beginning 6 months prior to 2nd May, 2002, the date of the Announcement, and ending on the Latest Practicable Date.

(f) Neither a subsidiary of SCIT, a pension fund of SCIT and its subsidiaries nor an adviser to SCIT had any interest in the Existing Shares.

(g) None of the directors of Proper Glory had any interest in the securities of SCIT.

(h) None of Proper Glory, its associates and concert parties had any interest in the securities of SCIT.

(i) There were no dealings in Existing Shares by Proper Glory, its associates and parties acting in concert with them during the period beginning 6 months prior to 2nd May, 2002, the date of the Announcement, and ending on the Latest Practicable Date.

(j) There were no dealings in Existing Shares by directors of Proper Glory and persons acting in concert with it during the period beginning 6 months prior to 2nd May, 2002, the date of the Announcement, and ending on the Latest Practicable Date.

(k) No person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with SCIT or Proper Glory or with any persons acting in concert with any of them in respect of the securities of SCIT or Proper Glory, which may be an inducement to deal or refrain from dealing during the period beginning 6 months prior to 2nd May, 2002, the date of the Announcement, and ending on the Latest Practicable Date.

(l) No person, prior to the posting of this circular, had irrevocably committed themselves to accept or reject the Financial Restructuring Proposal during the period beginning 6 months prior to 2nd May, 2002, the date of the Announcement, and ending on the Latest Practicable Date.

6. SUMMARY OF MATERIAL CONTRACTS

Within the period commencing two years immediately preceding the date of the Announcement and ending the Latest Practicable Date, other than the Subscription Agreement, the Disposal Agreement, the Management Agreement, the Joint Venture Deed facilitating the Financial Restructuring Proposal and the Travel Business Agreements, no contract that is or may be material, not being contracts entered into in the ordinary course of business, has been entered into by members of the SCIT Group.

7. LITIGATION

Save as disclosed in the section headed "Indebtedness statement" in this Appendix I, neither SCIT nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against SCIT or any of its subsidiaries.

8. QUALIFICATION OF EXPERTS

The following are the qualifications of the professional advisers whose opinions or advice are contained in this circular:

Dao Heng Securities	An investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
CEF Capital	A dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
Baron Capital	An investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
KGI Asia	A dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
FPDSavills (Hong Kong) Limited	Chartered surveyors
BMI Appraisals Limited	Chartered surveyors

9. CONSENTS

Dao Heng Securities, CEF Capital, KGI Asia, Baron Capital, FPDSavills (Hong Kong) Limited and BMI Appraisals Limited have given and have not withdrawn their respective written consent to the issue of this circular with the inclusion of their respective letters and/or reports and/or and references to their names, as the case may be, in the form and context in which they respectively appear.

10. SERVICE CONTRACT

As at the Latest Practicable Date, none of the Directors or the proposed Directors had any existing or proposed service contract with SCIT or any of its subsidiaries or associated companies which will not expire or is not determinable by the employer within one year (other than statutory compensation) or which has been amended within six months before the date of the Announcement.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the head office and principal place of business in Hong Kong of SCIT at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong, up to and including 2nd July, 2002:

(a) the memorandum and articles of association of SCIT and Proper Glory;

(b) the Subscription Agreement (together with the form of the Novation Deeds), the Disposal Agreement, the Management Agreement, the Travel Business Agreements and the Joint Venture Deed;

(c) the letter from KGI Asia and Baron Capital dated 7th June, 2002, the text of which is set out on pages 55 to 87 of this circular;

(d) the valuation certificate and report dated 7th June, 2002 from FPDSavills (Hong Kong) Limited and BMI Appraisals Limited, the texts of which are set out in Appendix II to this circular;

(e) the financial statements of the SCIT Group for the two years ended 31st December, 2000 and 2001;

(f) the written consents of Dao Heng Securities, CEF Capital, KGI Asia, Baron Capital, FPDSavills (Hong Kong) Limited and BMI Appraisals Limited as referred to in paragraph 9 of this appendix; and

(g) the acknowledgment/confirmation in writing from the creditors, other than normal day-to-day trade creditors, as of the date of the Announcement that the Consideration, the sale price for the Disposal Company and the proceeds from the exercise of the Put Option will not be applied by SCIT towards repayment of its loans to them.

12. MISCELLANEOUS

(a) The secretary of SCIT is Mr. Yuen Kam Tim, Francis, who is a fellow member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

(b) The registered office of SCIT is at P.O. Box 309, George Town, Grand Cayman, Cayman Islands, British West Indies and its head office and principal place of business in Hong Kong is at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

(c) The issued share capital of Proper Glory is beneficially owned as to 32 per cent. by Mr. He Xue Chu, as to 28 per cent. by Fortune Door Investment Limited, as to 25 per cent. by Venture Link Assets Limited and as to 15 per cent. by Mr. Wong Hing Kwok.

The registered office of Proper Glory is at Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands. The registered office of Fortune Door Investment Limited is at Trident Chambers, P.O. Box 146, Road Town, Tortola, British Virgin Islands. The registered office of Venture Link Assets Limited is at P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands.

The directors of Proper Glory are Messrs. He Xue Chu, Ku Wai Kwan, Zhou Teng and Wong Hing Kwok. The director of Fortune Door Investment Limited is Mr. Ku Wai Kwan. The director of Venture Link Assets Limited is Mr. Zhou Teng.

(d) The share registrars and transfer office of SCIT in Hong Kong is Standard Registrars Limited at 5th Floor, Wing On Centre, 111 Connaught Road, Central, Hong Kong.

(e) As at the Latest Practicable Date, save for the agreements facilitating the Financial Restructuring Proposal, there was no agreement or arrangement between Proper Glory or any person acting in concert with it and any of the Directors, Shareholders, recent directors or recent shareholders of SCIT which have any connection with or dependence upon completion of the Financial Restructuring Proposal.

(f) As at the Latest Practicable Date, save for the agreements facilitating the Financial Restructuring Proposal, there was no agreement or arrangement between any Director and any other person which is conditional on or dependent upon the outcome of the Financial Restructuring Proposal or otherwise connected with it.

(g) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between Proper Glory and any other persons for the transfer of the beneficial interests in the New Shares acquired by Proper Glory under the Subscription Agreement.

(h) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with SCIT or Proper Glory or with any persons acting in concert with any of them in respect of the securities of SCIT or Proper Glory, which may be an inducement to deal or refrain from dealing.

(i) As at the Latest Practicable Date, no shareholding in SCIT was managed on a discretionary basis by fund managers connected with SCIT.

(j) The address of CEF Capital, the financial adviser to Proper Glory, is at Suite 2001, 20th Floor, Cheung Kong Center, 2 Queen’s Road Central, Hong Kong.

South China Information and Technology Limited

(incorporated in the Cayman Islands with limited liability)

(the "Company")

NOTICE OF FIRST EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the First Extraordinary General Meeting of the Company will be held at 10:00 a.m. on Monday, 24th June, 2002 at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong to consider and, if thought fit, passing with or without amendments each of the following resolutions as Ordinary Resolutions Nos. 1 to 8 of the Company:

ORDINARY RESOLUTION NO. 1

1. "**THAT**, subject to the passing of Ordinary Resolution No. 2 below, and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of, and permission to deal in, the New Shares (as hereinafter defined) to be issued by the Company pursuant to the resolutions contained in this Notice and in compliance with Companies Law (2001 Second Revision) of the Cayman Islands, every two issued and unissued existing shares of HK$0.01 each in the share capital of the Company be and is hereby consolidated into one issued or unissued share of HK$0.02 each (a "New Share") in the share capital of the Company ("Share Consolidation"); and the directors of the Company be and are hereby authorised generally and unconditionally to do such things or make such arrangements to deal with fractional shares, if any, and such other things arising from and relating to the Share Consolidation as they may consider to be in the best interests of the Company."

ORDINARY RESOLUTION NO. 2

2. "**THAT**,

(a) each of the following agreements (collectively the "Transaction Agreements") be and is hereby generally and unconditionally approved, confirmed and ratified:

(i) the conditional subscription agreement dated 22nd April, 2002 and entered into between the Company, Proper Glory Holding Inc. (the "Subscriber") and South China Industries Limited ("SCI"), (the "Subscription Agreement") relating to the subscription of 3,000,000,000 New Shares (as defined in Ordinary Resolution No. 1 in the notice convening this meeting of which this Resolution forms a part) to be issued by the Company ("Subscription Shares") including without limitation to the manner of payment of the subscription price therefor, a copy of which has been produced to the meeting and marked "A" and signed by the chairman of the meeting for identification;

(ii) the conditional disposal agreement (the "Disposal Agreement") dated 22nd April, 2002 and entered into between the Company as vendor and SCI as purchaser relating to:

(aa) the disposal of the entire issued capital of South China Strategic (BVI) Limited which is a wholly-owned subsidiary of the Company; and

(bb) the disposal of 49 per cent. of the issued share capital in Deep Treasure Investments Limited (the "SI-IT Business Company"), a wholly-owned subsidiary of the Company,

including without limitation to the manner of payment of the consideration therefor, a copy of the Disposal Agreement has been produced to the meeting and marked "B" and signed by the chairman of the meeting for identification;

(iii) the conditional management agreement (the "Management Agreement") dated 22nd April, 2002 and entered into between the Company, the SI-IT Business Company and SCI relating to the management of the SI-IT Business Company, a copy of which has been produced to the meeting and marked "C" and signed by the chairman of the meeting for identification; and

(iv) the conditional joint venture deed (the "Joint Venture Deed") dated 22nd April, 2002 and entered into between the Company, SCI, Fook Cheung Developments Limited and the SI-IT Business Company relating to the operation and management of the SI-IT Business Company, a copy of which has been produced to the meeting and marked "D" and signed by the chairman of the meeting for identification;

(b) subject to the satisfaction (or waiver) of the conditions set out in clause 2A of the Subscription Agreement, the directors of the Company be and are hereby generally and unconditionally authorised to allot and issue the Subscription Shares to the Subscriber (and/or its nominees as may be specified by the Subscriber) in accordance with the terms of the Subscription Agreement; and

(c) subject to the satisfaction (or waiver) of the conditions set out in clause 2A of the Subscription Agreement, the grant to the Company by SCI pursuant to the terms of the Subscription Agreement of the put option (the "Put Option") to require SCI to acquire from the Company the Company's 51 per cent. interest in the SI-IT Business Company following completion of the Disposal Agreement be and is hereby generally and unconditionally approved, confirmed and ratified,

and that the transactions contemplated therein be and are hereby generally and unconditionally approved and that any one director of the Company (the "Director") be and is hereby generally and unconditionally authorised in the best interests of the Company to do such act, including but not limited to the allotment and issue of the Subscription Shares, or execute such documents for and on behalf of the Company by hand or, in case of execution of documents under seal, to do so jointly with either the Secretary or a duly appointed representative of the Directors or a second Director as he/she/they shall consider necessary, appropriate, desirable or expedient for the implementation and completion of the transactions contemplated in the Transaction Agreements."

ORDINARY RESOLUTION NO. 3

3. "**THAT**, subject to the passing of Ordinary Resolutions Nos.1 and 2 above,

(a) each of the following agreements (collectively the "Ancillary Agreements") be and is hereby approved:

(i) the assignment of loan by the South China Strategic Limited, a wholly-owned subsidiary of the Company, to SCI for the sum of HK$7,500,000 in aggregate due and owing by Fourseas.com Limited ("Fourseas.com") and its subsidiaries to the Company as at the date of completion of the Subscription Agreement (the "Loan Assignment") to take effect immediately upon completion of the Subscription Agreement or such other date as the Company and SCI may agree; a copy of which has been produced to the meeting and marked "A1" and signed by and the chairman of the meeting for identification;

(ii) 6 novation deeds to be entered into at no monetary consideration between the Company, SCI and each of Four Seas Travel (BVI) Limited, Four Seas (BVI) Limited, Four Seas Corporate Management Limited, Hong Kong Four Seas Tour Limited, Gainfield Holdings Limited and Four Seas Corporate Services Limited, all of which Fourseas.com indirectly holds 51 per cent. interest (collectively, the "Travel Business Companies") in respect of certain rights and obligations of the Company under i) a subscription agreement entered into by Fourseas.com

Limited, Giant Glory Assets Limited and the Company dated 18th June, 2001 as supplemented by the supplemental agreement dated 27th June, 2001 relating to the subscription of 3,500,000,000 shares in Fourseas.com by Giant Glory Assets Limited; and ii) a management agreement entered into between Fourseas.com, the Travel Business Companies and the Company pursuant to which the Company was to provide, among others, management services and funding support for a term of six years commencing on 3rd September, 2001 (collectively the "Novation Deeds") to take effect immediately upon completion of the Subscription Agreement or such other date as the Company and SCI may agree; a copy of each of the Novation Deeds has been produced to the meeting and marked "A2" and signed by and the chairman of the meeting for identification,

and that the transactions contemplated therein be and are hereby generally and unconditionally approved and that any one Director be and is hereby generally and unconditionally authorised in the best interests of the Company to do such act or execute such documents for and on behalf of the Company by hand or, in case of execution of documents under seal, to do so jointly with either the Secretary or a duly appointed representative of the Directors or a second Director as he/she/they shall consider necessary, appropriate, desirable or expedient for the implementation and completion of the transactions contemplated by the Ancillary Agreements."

ORDINARY RESOLUTION NO. 4

4. "**THAT**, subject to the passing of Ordinary Resolutions Nos. 1, 2 and 3 respectively, the granting by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any of his delegates, of a waiver to Proper Glory Holding Inc. and any parties acting in concert with it in respect of their obligation to make a mandatory general offer to the shareholders of the Company for their shares in the Company as a result of the issue of the Subscription Shares in accordance with Note 1 of Notes on dispensation from Rule 26 of the Code on Takeovers and Mergers of Hong Kong be approved and granted."

ORDINARY RESOLUTION NO. 5

5. "**THAT**, subject to the passing of Ordinary Resolutions Nos. 1, 2 and 3 above, the provision of the guarantees by the Company under the Non-exempted Connected Transaction, as defined under the section headed "Definitions" and more particularly described under the section headed "Connected Transactions" in the letter from the Board included in the circular dated 7th June, 2002 issued jointly by the Company and Proper Glory Holding Inc. and despatched on 7th June, 2002, a copy of which has been produced to the meeting and marked "E" and signed by the chairman of the meeting for identification, be approved.

GENERAL MANDATE

ORDINARY RESOLUTION NO. 6

6. "**THAT**, conditional upon completion of the Share Consolidation and the Transaction Agreements (as defined in Ordinary Resolution No. 2 in the notice convening this meeting of which this Resolution forms a part) (collectively the "Financial Restructuring Proposal"):

   (a) the general mandate granted to the directors of the Company to exercise the power of the Company to allot and issue ordinary shares of the Company pursuant to Ordinary Resolutions Nos. 5A and 5C passed by the shareholders of the Company at the annual general meeting of the Company held on 31st May, 2002 at 10:40 a.m. be revoked (but without prejudice to any exercise of such mandate prior to the date on which this Resolution becomes effective);

   (b) a general mandate be and is hereby unconditionally given to the Directors to exercise during the Relevant Period (as hereinafter defined) all the powers of the Company to allot, issue and dispose of unissued shares of HK$0.02 each in the capital of the Company and to make or grant offers, agreements or options which would or might require the exercise of such powers after the Relevant Period, in addition to any shares which may be issued on a Rights Issue (as hereinafter defined) or under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company or upon the exercise of the subscription rights attached to any warrants and/or convertible notes issued by the Company or as scrip dividends pursuant to the articles of association of the Company from time to time or pursuant to the Subscription Agreement entered into between the Company, the Subscriber and SCI dated 22nd April, 2002, not exceeding 20% of the aggregate nominal value of the share capital of the Company in issue as at the date of this Resolution as enlarged by the Subscription Shares (as defined in the Ordinary Resolution No. 2 in the notice convening this meeting of which this Resolution forms a part); and

   (c) for the purpose of this Resolution:

       "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

       (i) the conclusion of the next annual general meeting of the Company;

       (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the articles of association of the Company to be held; and

(iii) the date on which the authority set out in this Resolution is revoked or varied by way of ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the Directors to holders of shares on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or of the requirements of any recognised regulatory body or any stock exchange applicable to the Company, or the cost or delay in ascertaining the extent and applicability of any such restrictions, obligations or requirements)."

REPURCHASE MANDATE

ORDINARY RESOLUTION NO. 7

7. "**THAT**, conditional upon completion of the Financial Restructuring Proposal (as defined in Ordinary Resolution No. 6 in the notice convening this meeting of which this Resolution forms a part):

(a) the general mandate granted to the directors of the Company to exercise the power of the Company to purchase ordinary shares of the Company pursuant to an ordinary resolution passed by the shareholders of the Company at the annual general meeting of the Company held on 31st May, 2002 at 10:40 a.m. be and is hereby revoked (but without prejudice to any exercise of such mandate prior to the date on which this Resolution becomes effective);

(b) there be granted to the Directors an unconditional general mandate to repurchase shares of HK$0.02 each in the capital of the Company ("Shares") issued by the Company and that the exercise by the Directors of the Company of all powers of the Company to purchase Shares subject to and in accordance with all applicable laws, be and is hereby generally and unconditionally approved, subject to following conditions:

(1) such mandate shall not extend beyond the Relevant Period;

(2) such mandate shall authorise the Directors to procure the Company to repurchase Shares at such price as the Directors may at their discretion determine;

(3) the Shares to be repurchased by the Company pursuant to paragraph (a) of this Resolution during the Relevant Period shall not be more than 10% of the Shares in issue at the date of this Resolution as enlarged by the Subscription Shares (as defined in the Ordinary Resolution No. 2 in the notice convening this meeting of which this Resolution forms a part); and

(4) for the purpose of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the articles of association of the Company to be held; and

(iii) the date on which the authority set out in this Resolution is revoked or varied by way of ordinary resolution of the shareholders of the Company in general meeting."

ORDINARY RESOLUTION NO. 8

8. "**THAT**, subject to the availability of unissued share capital and conditional upon the passing of the Ordinary Resolutions Nos. 6 and 7 as set out in the notice convening this meeting, the aggregate nominal amount of the shares which are repurchased by the Company pursuant to and in accordance with Ordinary Resolution No. 7 shall be added to the aggregate nominal amount of the share capital of the Company that may be allotted and issued or agreed conditionally or unconditionally to be allotted and issued by the Directors pursuant to and in accordance with Ordinary Resolution No. 6."

By Order of the Board
Yuen Kam Tim, Francis
Company Secretary

Hong Kong, 7th June, 2002.

Notes:

(a) A member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude any member of the Company from attending and voting in person should he so wish.

(b) To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a materially certified copy of that power or authority must be deposited at the company's branch share registrar in Hong Kong, Standard Registrars Limitd, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof.

South China Information and Technology Limited

(incorporated in the Cayman Islands with limited liability)

(the "Company")

NOTICE OF SECOND EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Second Extraordinary General Meeting of the Company will be held at 10:00 a.m. on Tuesday, 2nd July, 2002 at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong to consider and, if thought fit, passing with or without amendments the following resolution as Special Resolution of the Company:

SPECIAL RESOLUTION

> **"THAT**, subject to completion of the Financial Restructuring Proposal as defined under the section headed "Definitions" in the circular dated 7th June, 2002 issued jointly by the Company and Proper Glory Holding Inc., a copy of which has been produced to the meeting and marked "A" and signed by the chairman of the meeting for identification, and the approval of the Registrar of Companies in the Cayman Islands being obtained, the name of the Company be changed to GUORUN HOLDINGS LIMITED 國潤控股有限公司 and the directors of the Company be and are hereby authorised generally to do such things or make such arrangements as they may think fit to deal with such matters arising from and relating to the aforesaid in this Resolution, if any."

By Order of the Board
Yuen Kam Tim, Francis
Company Secretary

Hong Kong, 7th June, 2002.

Notes:

(a) A member of the Company entitled to attend and vote at the above meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. A proxy need not be a member of the Company. Completion and return of the form of proxy will not preclude any member of the Company from attending and voting in person should he so wish.

(b) To be valid, a form of proxy and the power of attorney or other authority (if any) under which it is signed or a materially certified copy of that power or authority must be deposited at the company's branch share registrar in Hong Kong , Standard Registrars Limitd, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time fixed for the holding of the meeting or any adjournment thereof.