
INVESTMENT STRATEGY

INTRODUCTION

The Company, which was incorporated in Hong Kong in April 1993, is a closed-ended investment company and is being promoted by the China Merchants Group. The Company is proposing to acquire equity and equity related investments in companies or enterprises which have their principal operation in China. Details of the arrangements relating to the management of the Company and its investments are set out below.

INVESTMENT OBJECTIVES AND POLICY

The Company is proposing to acquire investments in China which are expected to be principally in unlisted enterprises. It is expected that the investments will be primarily in the following:

- industrial and manufacturing projects;
- transportation and other related infrastructure projects;
- service industries including tourism and financial services; and
- real estate projects.

The Company's investments may take the form of partnerships (whether limited or unlimited), joint ventures and other forms of corporate or non-corporate investment.

The Directors intend to ensure that the Company has a balanced portfolio of investments. Accordingly, approximately one-third of the Company's liquid funds will be invested in enterprises which are already operating profitably and which can demonstrate strong profit growth in the near term. A further one-third will be invested in enterprises or projects expected to yield a medium term return with a medium term goal. These enterprises or projects will have the potential for growth and profitability but perhaps for lack of capital or strong management, or because they are under construction or in trial operation, have yet to attain their full commercial potential. The balance will be invested in longer term enterprises, such as infrastructure projects, where the returns to shareholders would be expected to be received only in the longer term but where there is the potential for substantial returns on the initial cost of investment.

The Company may also invest not more than 10 percent of its Net Asset Value in China-concept shares, "H" Shares and "B" Shares.

The Directors, the directors of the Investment Manager and the connection with the China Merchants Group are expected to provide the Company with a wide range of expertise and connections which the Directors believe will give the Company access to numerous investment opportunities. It is expected that the majority of the Company's investments will be in enterprises which have been identified and introduced to the Investment Manager by the China Merchants Group.

The Company will seek actively to add value to its portfolio of investments by providing guidance and access to other resources to improve their financial and operating performance.

The Directors are responsible for the formulation of the Company's present investment policy and any subsequent changes to this policy in the light of political and/or economic conditions. The present policy, inclusive of the investment restrictions set out below, may be amended from time to time by the Directors if and as they shall deem it to be in the best interest of the Company to do so. Shareholders will be notified of any such material amendments. In any event, no alteration to the Company's investment objectives and policy or the investment restrictions set out herein may be made for a period of three years from the date of this prospectus without the prior consent of Shareholders in general meeting.

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It is not expected that the turnover of the Company's investments will be high since the majority of investments will be of a long term nature. Pending investment, reinvestment or distribution, moneys being held on behalf of the Company may also be invested in short-term money market instruments or deposited with banks or financial institutions.

The Investment Manager intends to invest fully the net proceeds from both the Placing and the subscription of Shares by Core Investors, in accordance with the Company's investment objectives and policy, at the earliest appropriate opportunity.

INVESTMENT RESTRICTIONS

Neither the Memorandum nor the Articles of Association of the Company contain any restrictions on the investment powers of the Company. However, under the Listing Rules relating to the listing of investment companies, certain restrictions on investments are required. In part to meet such requirements, the Board has resolved that the Company will not:

- (i) either on its own or in conjunction with any connected person, take legal or effective management control of any company or body in which it invests nor itself own or control more than 35 percent (or such lower percentage as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) of the voting rights of such company or body;
- (ii) purchase any security or make any investment if, as a result, more than 20 percent of the Net Asset Value would be invested in any one company or enterprise;
- (iii) invest in units or shares issued by a unit trust, mutual fund, open or closed-ended investment company or trust or other similar investment vehicle if, as a result, more than 10 percent of the Net Asset Value will be invested in such securities;
- (iv) buy or sell commodities, precious metals, options, warrants or futures (or any contracts associated therewith), except (other than in the case of commodities and precious metals) for hedging purposes;
- (v) make loans (except for acquiring convertible debentures with a view to converting the same into the common equity of a company), provided that for the purpose of this restriction the making of shareholders loans by the Company to any investee company, the making of deposits, the acquisition of bonds, debentures, other debt securities, short term commercial paper, certificates of deposit and bankers acceptances or other debt instruments or obligations or money market instruments shall not be deemed to be the making of a loan; or
- (vi) enter into any hedging transaction (not being a currency exchange transaction on a spot or forward basis) unless (a) it is covered and (b) such transaction is in the form of an instrument traded on a recognised stock exchange or options and futures market.

The above limitations apply as at the date of the relevant transaction or commitment to invest. Changes in the portfolio do not have to be effected merely because owing to appreciations or depreciations in value, or by reason of the receipt of, or subscription for, any rights, bonuses or benefits in the nature of capital or of any acquisition or merger or scheme of arrangement for amalgamation, reconstruction or conversion or exchange or of any repayment or redemption, any of the limits would thereby be breached, but regard shall be had to these limits when considering changes or additions to the investment portfolio. None of the limitations will prohibit the Company from investment in wholly-owned subsidiaries for the purpose of making investments but if the Company establishes any such subsidiaries the limitations will apply on a consolidated basis.

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None of these restrictions will require the realisation of any investments of the Company where a restriction is breached as a result of any event outside the control of the Company occurring after the relevant investment is made, but no further such investment may be made until the relevant restriction can again be complied with.

The limitations set out above, and the principal investment objectives of the Company described under the section headed “Investment Objectives and Policy” above, will remain in force for three years from the date of this prospectus unless amended by the Board with the approval of Shareholders in general meeting. The limitations contained in (i) and (ii) above may not be amended while the Shares remain listed on the Stock Exchange except with the approval of Shareholders in general meeting and with the prior written consent of the Stock Exchange.

REALISATION OF INVESTMENTS

Investments of the Company will be realised from time to time according to market conditions and the individual features of investments. Although there are a variety of methods by which unlisted investments may be realised, it is envisaged that the main realisation strategy will be by the sale of investments upon or after their listing or by the sale of investments to other joint venture partners or co-investors. In addition, realisations of investments may be made by means of sales to third party institutional, corporate or individual investors. The proceeds of any realisation of the Company’s investments will generally be reinvested.

BORROWING POLICY

The Articles do not contain any restriction on the amount or type of borrowings by the Company. However, as a matter of policy, the Company and its subsidiaries will not borrow, or give guarantees in respect of borrowings or other obligations if, at the time of any such transaction, their aggregate liability in respect thereof would exceed 25 percent of the Net Asset Value and it is currently envisaged that any such borrowings would be used only for short-term funding requirements. For these purposes, back-to-back arrangements involving the deposit of one currency against the advance of another will not be treated as borrowings.

DISTRIBUTION POLICY

Surpluses arising from the realisation of unlisted investments will generally not be available for distribution and will instead be reinvested. All income received by the Company after deducting expenses and provisions for the diminution in value of investments, if any, will to the extent permitted by law normally be paid out as a dividend. A portion of the distributable income may, however, at the discretion of the Board, be retained for future investment. Subject to these constraints, it is the intention of the Directors that the Company will pay final and interim dividends in July and November respectively in each year.

VALUATION POLICY

The Investment Manager or, at the request of the Board, the Auditors, shall be responsible for valuing the Company’s investments in accordance with the valuation assumptions set out under the section headed “Net Asset Value” in appendix IV.

FOREIGN EXCHANGE POLICY

The investments held by the Company will be denominated principally in RMB. It is not currently possible to hedge the RMB against the US dollar at competitive rates, nor is it the Directors’ present intention to hedge the Company’s currency exposure. However, the Directors reserve the right to enter into arrangements to hedge the Company’s currency exposure, if such arrangements become desirable in the future. Further details are contained in the section headed “Risk Factors” on pages 3 to 5.