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香港建設(控股)有限公司
HONG KONG CONSTRUCTION (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

Web site: www.hkconstruction.com

(Stock Code: 190)

**PROPOSED CAPITAL REDUCTION
AND
SHARE PREMIUM CANCELLATION**

Financial adviser



The Board announces that the Company intends to put forward to the Shareholders the Proposed Reorganisation which will involve (i) the Capital Reduction; and (ii) the Share Premium Cancellation. The Proposed Reorganisation is conditional on, among other things, the approval by the Shareholders and confirmation of the Proposed Reorganisation by the Court.

A circular setting out details of the Proposed Reorganisation and containing a notice convening the Extraordinary General Meeting will be dispatched to the Shareholders in due course.

1. THE PROPOSED REORGANISATION

1.1 Introduction

The Board announces that the Company intends to put forward to the Shareholders the Proposed Reorganisation which will involve (i) the Capital Reduction; and (ii) the Share Premium Cancellation.

1.2 Capital Reduction and Share Premium Cancellation

The Board proposes (i) to reduce the share capital of the Company by cancelling the issued and paid up capital to the extent of HK\$0.99 on each of the issued Shares and by reducing the nominal value of all the issued and unissued Shares from HK\$1.00 to HK\$0.01 each, thereby reducing the issued and paid up capital of the Company by HK\$2,305,125,179.28 in respect of 2,328,409,272 Shares in issue as at the date of this announcement, and thereby reducing the authorised but unissued share capital of the Company by HK\$1,159,874,820.72 in respect of 1,171,590,728 Shares not yet issued by the Company as at the date of this announcement; and (ii) to reduce and cancel all the amount of (approximately HK\$987.7 million) standing to the credit of the Share Premium Account and apply the amount reduced and cancelled, together with part of the amount arising from the Capital Reduction and transferred to the Capital Reduction Reserve Account, against all the Accumulated Losses.

As a result of the cancellation of the issued and paid up capital of the Company, a credit of approximately HK\$2,305.1 million will arise, such amount will be transferred to the Capital Reduction Reserve Account. Part of the amount (approximately HK\$813.6 million) standing to the credit of the Capital Reduction Reserve Account will be utilised to set off the remaining balance of the Accumulated Losses.

2. CONDITIONS OF THE PROPOSED REORGANISATION

Implementation of the Proposed Reorganisation is conditional upon the satisfaction of the following conditions:

- (i) the passing by the Shareholders of a special resolution at the Extraordinary General Meeting to approve the Proposed Reorganisation;
- (ii) the confirmation of the Capital Reduction and the Share Premium Cancellation by the Court and the registration by the Companies Registrar of a copy of the order of the Court confirming the Capital Reduction and the Share Premium Cancellation and a copy of the minute containing the particulars required under Section 61 of the Companies Ordinance duly approved by the Court; and
- (iii) the compliance with any conditions as may be imposed by the Court in relation to the Capital Reduction and the Share Premium Cancellation.

3. EFFECTS OF THE PROPOSED REORGANISATION

3.1 Financial position

Implementation of the Proposed Reorganisation will not alter the business and the net assets/liabilities or financial position of the Group, other than the payment of professional expenses relating thereto.

3.2 Business

The business and management of the Group will not be changed as a result of the implementation of the Proposed Reorganisation.

3.3 Share capital

The following table sets out the effect of the Proposed Reorganisation on the share capital of the Company, that is, before and after the implementation of the Capital Reduction.

	Number of Shares	Share capital before the Capital Reduction HK\$	Amount of the share capital reduced as a result of the Capital Reduction HK\$	Share capital immediately after the Capital Reduction becoming effective HK\$
Par value		1.00	0.99	0.01
Authorised Share Capital:	3,500,000,000	3,500,000,000.00	3,465,000,000.00	35,000,000.00
Issued and fully paid share capital:	2,328,409,272	2,328,409,272.00	2,305,125,179.28	23,284,092.72

4. BACKGROUND TO AND REASONS FOR IMPLEMENTING THE PROPOSED REORGANISATION

4.1 Background to the Proposed Reorganisation

Since November 2000, the Group had experienced liquidity problems and had failed on several occasions to service its loan obligations. Thereafter, it took the Group almost two years till August 2002 to enter into a standstill agreement with its financial creditors in an attempt to restructure the Group's then outstanding debt. By December 2003, all attempts to restructure the Group's indebtedness failed and no agreement had been reached between the Group and its financial creditors.

On 20 December 2003, Creator and the Group's financial creditors entered into the Debt Transfer and Exchange Agreement for the purchase by Creator from the Group's financial creditors substantially all of the indebtedness owed by the Group to the financial creditors. The remaining balance of the indebtedness was secured by a mortgage over certain properties owned by a subsidiary and an associated corporation of the Company, details of which were set out in the announcement of the Company dated 16 January 2004. Subsequent to the signing of the Debt Transfer and Exchange Agreement, the Company and Creator agreed on a debt restructuring proposal which resulted in the implementation of the corporate restructuring and debt conversion exercise of the Company in February 2004. Details of the said exercise were set out in the announcement of the Company dated 18 February 2004 and the circular of the Company dated 11 March 2004.

In April 2004, Creator became the controlling Shareholder with Shanghai Construction (Group) General Corporation and China Everbright International Limited (the previous substantial Shareholders) remained as two Shareholders with substantial stake in the Company.

As at the date of this announcement, Creator and its associates are the beneficial owners of approximately 1,533.8 million Shares, representing approximately 65.87% of the existing issued share capital of the Company.

The current management team has undertaken to continue to commit its expertise and experience in the traditional core business of the Group of civil engineering and building construction, with the objective to position the Group to pursue tenders for property construction, large-scale infrastructure, urban re-development and transportation projects in Hong Kong and the PRC.

The Company is also continuing to reposition itself to focus its investments in the PRC and has established various branch offices and representative offices in Shanghai, Beijing, Shenzhen and other municipalities in the PRC.

In view of the vast experience and business contacts of the Directors and senior management of the Group in Hong Kong, the PRC and other countries in Asia, the Company has recently extended its investments to toll road and wind power stations and is likely to encounter various investment opportunities in the areas of infrastructure projects and health care centres in the region. Although the Group has remained as a predominant property construction company for over 30 years, the Board believes that following the completion of the corporate restructuring exercise in April 2004, it is in the interests of the Company and the Shareholders as a whole to review/expand its revenue stream and/or profitability as and when appropriate so as to reduce the reliance on the volatile property markets in Hong Kong and the PRC and to secure a stable revenue environment/model for the Company's investors.

4.2 Reasons for the Capital Reduction and Share Premium Cancellation

As a result of the cancellation of the issued and paid up capital of the Company, a credit of approximately HK\$2,305.1 million will arise, which amount will be transferred to the Capital Reduction Reserve Account. As the amount of approximately HK\$987.7 million standing to the credit of the Share Premium Account is insufficient to set off all the Accumulated Losses of approximately HK\$1,801.3 million as

shown in the audited account of the Company for the year ended 31 December 2004, part of the amount arising from the Capital Reduction and transferred to the Capital Reduction Reserve Account will be utilised to set off the remaining balance of the Accumulated Losses. By means of implementing the Capital Reduction, the Company will be able to eliminate all Accumulated Losses and improve its financial position, which the Board considers is in the interests of the Company and the Shareholders as a whole. The Board considers that the Accumulated Losses represent a permanent loss of assets of the Company and therefore proposes to apply the whole amount of approximately HK\$987.7 million standing to the credit of the Share Premium Account to set off the Accumulated Losses which the Board considers is in the interests of the Company and the Shareholders as a whole.

The Shares have been traded below its par value of HK\$1.00 per Share since mid-2001 till now. Under the Companies Ordinance, the Company may not issue new Shares at a discount to the par value of the Shares, unless, among other things, the issue is authorised by a resolution of the Shareholders and is sanctioned by the Court. As a result, it creates difficulty for the Company to raise new equity capital from the securities market. Following the completion of the Capital Reduction, the par value of the Shares will become HK\$0.01 per share and will therefore allow the Company with greater flexibility in pricing any new equity fund raising exercise in the future.

5. GENERAL

An application will be made to the Listing Committee for the listing of, and permission to deal, in the new shares of HK\$0.01 each in the capital of the Company to be issued following the completion of the Proposed Reorganisation.

A circular setting out details of the Proposed Reorganisation and containing a notice convening the Extraordinary General Meeting will be dispatched to the Shareholders in due course.

Access Capital Limited has been retained by the Company as its financial adviser to the Proposed Reorganisation.

6. DEFINITIONS

“Accumulated Losses”	the accumulated losses of the Company, the amount of which as shown in the latest audited account of the Company for the year ended 31 December 2004 is approximately HK\$1,801.3 million
“Authorised Share Capital”	authorised share capital of the Company
“Board”	the board of Directors
“Capital Reduction”	the proposed reduction of the share capital of the Company by cancelling the issued and paid up capital to the extent of HK\$0.99 on each of the Shares in issue and by reducing the nominal value of all the unissued Shares from HK\$1.00 each to HK\$0.01 each
“Capital Reduction Reserve Account”	the capital reduction reserve account of the Company to be set up upon the Capital Reduction becoming effective
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Hong Kong Construction (Holdings) Limited, a company incorporated in Hong Kong with limited liability whose Shares are listed on the Stock Exchange
“Companies Registrar”	the Registrar of Companies in Hong Kong
“Court”	the Court of First Instance of the High Court, Hong Kong
“Creator”	Creator Holdings Limited, a company wholly-owned by Mr. OEI Kang Eric, the Managing Director and Chief Executive Officer of the Company, and the controlling Shareholder
“Debt Transfer and Exchange Agreement”	the debt transfer and exchange agreement dated 20 December 2003 between Creator, the bank creditors and the holders of the floating rate notes issued by a subsidiary of the Company which was completed on 16 January 2004 as announced in an announcement of the Company dated 16 January 2004
“Extraordinary General Meeting”	the extraordinary general meeting of the Company to be convened to approve, if thought fit, the resolution in relation to the Proposed Reorganisation
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Committee”	the Listing Committee of the Stock Exchange
“PRC”	the People’s Republic of China
“Proposed Reorganisation”	the proposed reorganisation of the Company which will involve (i) the Capital Reduction; and (ii) the Share Premium Cancellation
“Share(s)”	ordinary share(s) of HK\$1.00 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares

“Share Premium Account”	the share premium account of the Company
“Share Premium Cancellation”	the proposed reduction and cancellation of the Share Premium Account and application of the amount reduced and cancelled against the Accumulated Losses
“special resolution”	means a resolution to be passed by not less than three-fourths of the votes cast by the members as, being entitled so to do, vote in person or, where proxies are allowed, by proxy, at a general meeting
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

By Order of the Board
Hong Kong Construction (Holdings) Limited
Oei Kang Eric
Managing Director and Chief Executive Officer

Hong Kong, 17 June 2005

As at the date hereof, the Board is comprised of 13 Directors, of which 5 are executive Directors, namely Mr. OEI Kang Eric, Mr. CHEN Libo, Mr. TSANG Sai Chung Kirk, Ms. SO Hang Selina and Mr. TANG Sau Wai Tom, 5 are non-executive Directors, namely Mr. OEI Tjie Goan, Mr. LI Xueming, Mr. XU Zheng, Mr. LIU Guolin and Mr. FAN Yan Hok Philip, and 3 are independent non-executive Directors, namely Mr. CHUNG Cho Yee Mico, Mr. CHENG Yuk Wo and Mr. Albert Thomas DA ROSA, Junior.

“Please also refer to the published version of this announcement in The Standard.”