

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action you should take, 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 CNPC (Hong Kong) Limited (the “Company”), you should at once hand this circular to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited (“the Stock Exchange”) takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



CNPC (HONG KONG) LIMITED

(incorporated in Bermuda with limited liability)

中國(香港)石油有限公司

Executive Directors:

Wang Mingcai (*Executive Chairman*)

Li Hualin (*Executive Vice-Chairman & Managing Director*)

Xu Tianshu

Registered office:

Clarendon House

Church Street

Hamilton HM11

Bermuda

Non-Executive Directors:

Lau Wah Sum, GBS, LLD, DBA, JP*

Aubrey Li Kwok Sing*

Lin Jingao

Principal office in Hong Kong:

Rooms 3907-3910

39th Floor

118 Connaught Road West

Hong Kong

* *Independent Non-executive Directors*

26th April, 2002

To Shareholders

Dear Sir or Madam,

**PROPOSALS FOR GENERAL MANDATES
TO REPURCHASE SHARES AND TO ISSUE SHARES
AND ADOPTION OF NEW SHARE OPTION SCHEME**

INTRODUCTION

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”) contain provisions to regulate the repurchase by companies with primary listings on the Stock Exchange of their own securities on the Stock Exchange (“the Share Buy Back Rules”).

LETTER FROM THE CHAIRMAN

The purpose of this circular is to provide you with information relating to the proposed general mandate to repurchase shares, the proposed general mandate to issue shares, a new share option scheme proposed to be adopted by the Company (the “New Share Option Scheme”) and the cancellation of the Company’s existing share option scheme with effect from the date of the Annual General Meeting of the Company to be held on 3rd June, 2002 (the “Annual General Meeting”).

GENERAL MANDATE TO REPURCHASE SHARES

An Ordinary Resolution will be proposed at the Annual General Meeting to grant the directors of the Company (the “Directors”) a general mandate to exercise the powers to repurchase the Company’s shares of HK\$0.01 each (the “Shares”) up to 10% of the issued and fully paid-up share capital of the Company as at the date of passing such resolution (the “Repurchase Proposal”). An explanatory statement required under the Share Buy Back Rules to provide the requisite information of the general mandate to repurchase Shares is set out in Appendix I hereto.

GENERAL MANDATE TO ISSUE SHARES

It will also be proposed at the Annual General Meeting two Ordinary Resolutions respectively granting to the Directors a general mandate to allot, issue and deal with Shares not exceeding 20% of the issued share capital of the Company at the date of the resolution (excluding Shares to be issued pursuant to options that may be granted under the New Share Option Scheme) and adding to such general mandate so granted to the Directors any Shares representing the aggregate nominal amount of the Shares repurchased by the Company after the granting of the general mandate to repurchase up to 10% of the issued share capital of the Company at the date of the Ordinary Resolutions.

ADOPTION OF THE NEW SHARE OPTION SCHEME

The board of Directors noted that the Stock Exchange had announced on 23rd August, 2001 amendments to Chapter 17 (Share Option Schemes) of the Listing Rules which came into effect on 1st September, 2001. Following these amendments, the Company will no longer be allowed to grant options under its existing share option scheme unless the requirements of the amended Listing Rules are complied with. Accordingly, the board of Directors proposes to adopt the New Share Option Scheme in substitution for its existing share option scheme adopted by the shareholders of the Company on 28th May, 2001. A summary of the principal terms of the New Share Option Scheme is set out in Appendix II hereto.

The purpose of the New Share Option Scheme is to provide incentives to the Directors and certain employees of the Company to contribute to the Company and to enable the Company to recruit high-calibre employees and attract human resources that are valuable to the Company. To ensure that this purpose is achieved, the rules of the New Share Option Scheme

LETTER FROM THE CHAIRMAN

provide that, among other things, the board of Directors or a duly authorised committee thereof (the “Board”) will grant options only to the executive and non-executive Directors (including independent non-executive Directors) and the full-time employees of the Company (the “Eligible Participants”) and that the options granted under the New Share Option Scheme may be exercised in accordance with the terms thereof after the expiry of a three-month period from the date on which the options are granted (the “Date of Grant”) and, thereafter, at any time during a ten-year period commencing on the Date of Grant.

The Directors consider that the adoption of the New Share Option Scheme is in the best interests of the Company because, apart from providing the Eligible Participants with an opportunity to acquire equity interests in the Company, the New Share Option Scheme also permits the holders of the options granted thereunder to exercise the subscription rights attaching to the options at any time after the expiry of the above-mentioned three-month period from the Date of Grant, thus enabling them to participate in the prosperity of the Company and providing an incentive for them to contribute further to the success of the Company both in the near future and in the long term.

Although the rules of the New Share Option Scheme provide that the exercise of option is not subject to the achievement of any performance target of the Company, the Board believes that the requirement for a minimum subscription price prescribed by the rules of the New Share Option Scheme will serve to protect the value of the Company as well as to achieve the purpose of the New Share Option Scheme.

Subject to the adoption of the New Share Option Scheme, the existing share option scheme of the Company will be terminated. Upon adoption of the New Share Option Scheme, no further options will be granted under the existing share option scheme, but in all other respects, the provisions of the existing share option scheme shall remain in force and all options granted prior thereto shall continue to be valid and exercisable in accordance with the provisions thereof.

As at 22nd April, 2002 (the “Latest Practicable Date”), being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein, no options had been granted by the Company under the existing share option scheme and no options will be granted under the existing share option scheme after the Latest Practicable Date.

On the basis of 4,930,033,512 Shares in issue as at the Latest Practicable Date, and assuming no further Shares will be issued or repurchased by the Company on or before 3rd June, 2002, the Company may initially grant options representing 493,003,351 Shares under the New Share Option Scheme (i.e., 10% of the issued share capital of the Company as at the date of the Annual General Meeting).

LETTER FROM THE CHAIRMAN

The Directors consider that it is not appropriate to state the value of all the options that can be granted under the New Share Option Scheme as if they had been granted at the Latest Practicable Date prior to the approval of the New Share Option Scheme given that the variables which are crucial for the calculation of the value of such options cannot be determined. Such variables include whether or not options will be granted under the New Share Option Scheme, and, if so, the timing of granting of such options, the period during which the subscription rights attaching to the options may be exercised, the subscription price for the Shares upon the exercise of the subscription rights, other conditions that the Board may impose on the options and whether or not such options, if granted, will be exercised by the grantees.

The subscription price depends on the price of the Shares as quoted on the Stock Exchange, which, in turn, depends on when the Board is to grant options under the New Share Option Scheme. With a scheme period of ten years, the Board is of the view that it is too premature to state whether or not options will be granted under the New Share Option Scheme, and if so, the number of options that may be granted. It is also difficult to ascertain with accuracy the subscription price given the volatility the Share price may be subject to during the ten-year life span of the New Share Option Scheme. In the premises, the Directors are of the view that the value of the options to be ascertained is subject to a number of theoretical basis and speculative assumptions. Accordingly, the Directors believe that any calculation of the value of the options as at the Latest Practicable Date will not be meaningful and may be misleading to the shareholders of the Company in the circumstances.

Application will be made to the Stock Exchange for the listing of and permission to deal in the Shares to be issued pursuant to the exercise of the options that may be granted under the New Share Option Scheme.

A copy of the New Share Option Scheme will be available for inspection at the principal place of business of the Company at Rooms 3907-3910, 39th Floor, 118 Connaught Road West, Hong Kong during normal business hours from 26th April, 2002 up to and including 3rd June, 2002 and at the Annual General Meeting.

In accordance with the requirements of the Listing Rules, the Company will publish in the newspapers an announcement on the outcome of the Annual General Meeting in respect of the resolution relating to the adoption of the New Share Option Scheme on the business day following the date of the Annual General Meeting.

LETTER FROM THE CHAIRMAN

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, statements of fact expressed herein are true, accurate and not misleading, statements of opinion expressed herein have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement herein misleading.

PROXY

A proxy form for use at the Annual General Meeting is enclosed with the Annual Report for the year ended 31st December, 2001. If you intend to appoint proxy to attend the Annual General Meeting, you are requested to complete the proxy form and return it to the Company's principal office at Rooms 3907-3910, 39th Floor, 118 Connaught Road West, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting or adjourned meeting (as the case may be). Completion and return of the proxy form will not prevent you from attending and voting at the Annual General Meeting if you so wish.

RECOMMENDATION

The Directors believe that the proposed general mandate on repurchase of Shares, the proposed general mandate for Directors to issue new Shares and the proposed adoption of the New Share Option Scheme are all in the best interests of the Company and its shareholders as a whole. Accordingly, the Directors recommend that all shareholders should vote in favour of the Ordinary Resolutions nos. 5 to 8 set out in the Notice of Annual General Meeting.

Yours faithfully,
Wang Mingcai
Executive Chairman

SHARE BUY BACK RULES

Under the Share Buy Back Rules, any share repurchased by a company with a primary listing on the Stock Exchange has to comply with certain provisions, including:

(a) Shareholders' Approval

The Share Buy Back Rules provide that all on-market share repurchases by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of a general mandate or by a specific approval in relation to specific transactions.

(b) Source of Funds

Repurchase must be funded out of funds which are legally available for the purpose in accordance with the Memorandum of Association and Bye-Laws of the Company and laws of Bermuda.

REASONS FOR SHARE BUY BACK

The Directors believe that the flexibility afforded by the Repurchase Proposal would be in the best interest of the Company and its shareholders. Such repurchase of Shares may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the value of the Company, its assets and/or its earnings per share and will only be made when the Directors believe that such a repurchase will benefit the Company.

SHARE CAPITAL

As at the Latest Practicable Date, the issued share capital of the Company comprised 4,930,033,512 Shares.

Subject to the passing of the Ordinary Resolution No. 5 at the Annual General Meeting, the Company would be allowed under the buy back mandate to repurchase a maximum of 493,003,351 Shares (on the assumption that no further shares will be issued or repurchased from the Latest Practicable Date up to the date of the Annual General Meeting).

FUNDING OF REPURCHASES

The Directors propose that repurchases of Shares under the buy back mandate would be financed by the Company's internal resources or existing banking facilities. In repurchasing Shares, the Company may only apply funds legally available for such propose in accordance with the Memorandum of Association and Bye-Laws of the Company and laws of Bermuda.

There might be material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited accounts contained in the Annual Report for the year ended 31st December, 2001) in the event that the buy back mandate

were to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the buy back mandate to such extent as would, in the circumstances, have a material adverse impact on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

MARKET PRICES

The highest and lowest prices for shares of the Company traded on the Stock Exchange during each of the previous twelve months were as follows:

	Shares	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2001:		
April	0.78	0.48
May	0.96	0.73
June	1.00	0.71
July	0.79	0.69
August	0.73	0.58
September	0.65	0.49
October	0.64	0.55
November	0.65	0.58
December	0.62	0.56
2002:		
January	0.69	0.57
February	0.73	0.62
March	0.70	0.63

DISCLOSURE OF INTEREST

The Directors of the Company have undertaken to the Stock Exchange that they will exercise the buy back mandate in accordance with the Listing Rules and the laws of Bermuda and in accordance with the regulations set out in the Memorandum of Association and the Bye-Laws of the Company.

If as a result of share repurchase by the Company, a substantial shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of The Hong Kong Code on Takeovers and Mergers (the "Code"). Accordingly, a shareholder, or group of shareholders acting in concert, could obtain or consolidate control of the Company or become obliged to make a mandatory offer in accordance with Rule 26 of the Code.

As at the Latest Practicable Date, Sun World Limited ("Sun World") is deemed to be interested in 58.07% of the issued share capital of the Company.

In the event that the Directors should exercise in full the buy back mandate to be granted pursuant to the Ordinary Resolution to be proposed at the Annual General Meeting, the shareholding of Sun World in the Company would be increased to approximately 64.52% of the issued share capital of the Company. The Directors consider that such repurchase would not give rise to an obligation for Sun World to make a mandatory offer under Rule 26 of the Code. The Directors have no intention to exercise the buy back mandate to such extent that the public shareholding in the Company would reduce below 25% of the issued share capital of the Company.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in Listing Rules) presently intend to sell Shares to the Company under the buy back mandate in the event that the buy back mandate is approved by the shareholders of the Company.

The Company has not been notified by any connected persons of the Company that they have a present intention to sell any Shares, or that they have undertaken not to sell any Shares held by them to the Company in the event that the buy back mandate is approved by its shareholders.

SHARE PURCHASES MADE BY THE COMPANY

During the previous six months' period ended 31st March, 2002, 24,850,000 Shares were repurchased by the Company through the Stock Exchange, details of which are as follows:

Date	Number of Shares repurchased	Price per share	
		Highest price	Lowest price
<i>2001</i>		<i>HK\$</i>	<i>HK\$</i>
3rd October	3,570,000	0.56	0.54
4th October	4,790,000	0.57	0.56
5th October	3,620,000	0.58	0.56
8th October	2,410,000	0.59	0.57
9th October	1,210,000	0.60	0.58
10th October	1,760,000	0.60	0.59
11th October	760,000	0.62	0.61
12th October	2,020,000	0.62	0.61
15th October	880,000	0.63	0.62
16th October	3,830,000	0.62	0.60
	<u>24,850,000</u>		

Save for the foregoing, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the previous six months. All of the Shares repurchased were cancelled.

APPENDIX II PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME

The following is a summary of the principal terms of the New Share Option Scheme proposed to be adopted at the Annual General Meeting:

(a) Who may join

The Board may give an invitation to any Eligible Participant to apply for an option under and in accordance with the New Share Option Scheme.

(b) Grant of option

Any invitation to apply for options must not be made at any time:

- (i) after a price sensitive event in relation to the securities of the Company has occurred or a price sensitive matter in relation to the securities of the Company has been the subject of a decision, until such price sensitive information has been published in the newspapers; or
- (ii) within the period commencing one month immediately preceding the earlier of:
 - (1) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the listing agreement between the Company and the Stock Exchange in relation to the listing of the Shares on the Stock Exchange (the “**Listing Agreement**”)) for the approval of the Company’s interim or annual results for any year, half-year or other period in relation to which the Company’s consolidated financial statements and accounts are made up (the “**Financial Period**”); and
 - (2) the deadline for the Company to publish its interim or annual results announcement for any Financial Period under the Listing Agreement,and ending on the date of such results announcement.

Any invitation given during such period shall be void and of no effect.

(c) Payment on acceptance of offer of an option

No amount shall be payable by the Eligible Participant to the Company in exercising his right to accept an offer of an option.

(d) Price of Shares

In relation to an option, the subscription price for Shares is an amount equal to the Option Price (as defined and described in the next paragraph below) multiplied by the relevant number of Shares for which an option holder is entitled to subscribe for pursuant to an option granted under the New Share Option Scheme.

APPENDIX II PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME

For the purposes of the New Share Option Scheme, the “**Option Price**” shall be fixed at such level as the Board may determine save that it shall be at least the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets on the Date of Grant, which must be a business day;
- (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the Date of Grant; and
- (iii) the par value of the Shares for the time being.

(e) **Maximum number of Shares**

The limit on the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme, together with all outstanding options granted and yet to be exercised under any other share option scheme(s) of the Company, must not exceed 30% of the number of issued Shares from time to time.

In addition, the Board may only grant options of up to 10% of the Shares of the issued share capital of the Company as at the date of approval of such 10% limit (the “**Scheme Mandate Limit**”). Assuming no further options will be granted under the existing share option scheme of the Company and no Shares will be issued or repurchased prior to the effective date of the New Share Option Scheme (i.e., 3rd June, 2002), the Company may initially grant options of up to 493,003,351 Shares to Eligible Participants under the New Share Option Scheme.

The Company may refresh this Scheme Mandate Limit at any time, subject to approval by the shareholders of the Company given at a general meeting of the Company and the issue of a circular, provided that the maximum number of Shares in respect of which options may be granted under the New Share Option Scheme (when aggregated with any Shares subject to any other share option scheme(s) of the Company) under the limit as refreshed must not exceed 10% in nominal amount of the issued share capital of the Company as at the date of the approval of the limit, excluding any Shares that are subject to options previously granted under the New Share Option Scheme or any other share option scheme(s) of the Company (including those outstanding, cancelled or lapsed in accordance with the New Share Option Scheme or such other share option scheme(s) of the Company and those that have been exercised).

The Company may also seek separate approval from its shareholders for granting options beyond the Scheme Mandate Limit to grantees specifically identified by the Company before such approval is sought subject to shareholders’ approval given at a general meeting of the Company and the issue of a circular.

The total number of Shares issued and to be issued upon exercise of the options (whether exercised or outstanding) in any 12-month period granted to each Eligible Participant must not exceed 1% of the number of Shares in issue. Any further grant of options in excess of this limit is subject to shareholders' approval given at a general meeting of the Company and the issue of a circular, with the relevant grantee and his associates (as defined in the Listing Rules) abstaining from voting.

(f) Rights of exercise of option

An option may be exercised in accordance with the terms of the New Share Option Scheme after the expiry of a three months' period from the Date of Grant and, thereafter, at any time during the Option Period (as defined in the next paragraph below) notwithstanding the Scheme Period (as defined in section (n) below) may have expired.

For the purposes of the New Share Option Scheme, the “**Option Period**” shall be the period commencing on the Date of Grant of an option and expiring not later than the close of business on the day preceding the tenth anniversary thereof.

The Option Period shall not be extended and, on expiry thereof, all rights in respect of an option shall terminate and the option shall lapse automatically, except in so far as there has been an effective exercise of that option prior thereto and the Company has not discharged all its duties under the New Share Option Scheme in relation to such exercise. No option may be exercised after the expiry of the Option Period. The options shall also lapse automatically upon the occurrence of certain circumstances as set out and described in sections (h), (j), (k) and (l) below.

The right to exercise an option is not subject to or conditional upon the achievement of any performance target.

(g) Rights are personal to grantee

An option shall be personal to the option holder and shall not be transferable save that an Eligible Participant shall have the right to appoint a nominee to accept options on his behalf.

(h) Rights on ceasing to be an Eligible Participant

If an option holder ceases to be an Eligible Participant:-

- (i) by reason of ill-health, injury, disability or death (all evidenced to the satisfaction of the Board), or on retirement in accordance with his contract of employment, then, in accordance with the New Share Option Scheme, he or (as the case may be) his personal representatives may exercise all his options within the specified period. Any options not so exercised shall lapse automatically and determine at the end of the said period;

- (ii) by reason of voluntary resignation or by termination of his employment in accordance with the termination provisions of his contract of employment by the Company otherwise than by reason of redundancy, an option granted pursuant to the New Share Option Scheme shall be of no legal effect and all his options shall lapse automatically and determine on the date he so ceases unless the Board in its absolute discretion shall determine otherwise; and

- (iii) for any reason other than as described in paragraphs (h)(i) and (h)(ii) above, any options shall be exercisable at the absolute discretion of the Board.

(i) Adjustments

Upon the occurrence of any variation in the issued share capital of the Company arising from any reduction of share capital or sub-division or consolidation of Shares or by way of a capitalisation issue or by way of a rights issue (other than an issue of Shares as consideration in respect of a transaction involving the acquisition of assets by the Company and to which the Company is a party) (the “**Relevant Event**”), the number or nominal amount of Shares comprised in each option and/or the Option Price thereunder may be adjusted in such manner as the Board may deem appropriate PROVIDED ALWAYS THAT no increase shall be made in the aggregate subscription price for Shares relating to any option and PROVIDED THAT any such adjustment shall give an Eligible Participant the same proportion of equity capital in the Company as that to which he was entitled prior to the Relevant Event but no such adjustments may be made to the extent that a Share would be issued at less than its nominal value and PROVIDED FURTHER THAT, where such Relevant Event arises from an issue of Shares, reference in the New Share Option Scheme to options shall include references to options that have been exercised prior to the date of such adjustment in respect of Shares which do not rank and are not entitled to participate in such issue under the New Share Option Scheme. Except on the occurrence of a Relevant Event there shall be no adjustment made. In respect of any adjustment required by the terms of the New Share Option Scheme, other than any made on a capitalisation issue, an independent financial adviser or the auditors of the Company must also confirm to the Board in writing that the adjustments satisfy the requirements set out in paragraph 13 of Rule 17.03 of the Listing Rules.

(j) Rights on take-over

If a general offer to acquire Shares (whether by takeover offer, merger, privatisation proposal by scheme of arrangement between the Company and its members or otherwise in like manner) is made to all the holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer, having been approved in accordance with applicable laws and regulatory requirements, becomes or is declared unconditional, an option holder shall be entitled to exercise the option (to the extent not already exercised) at any time until whichever is the earlier of the date of expiry of the Option Period or the last day of the period of 14 days after the date on which the offer becomes or is declared unconditional, after which the option shall lapse automatically.

(k) Rights on liquidation

If notice is duly given of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company, every option to be granted under the New Share Option Scheme shall, subject to the rules as described in section (h) above, be exercisable in whole or in part (but so that any exercise thereunder shall only be valid if, at the time of such option being exercised, the option shall not have ceased and determined in accordance with the provisions of the New Share Option Scheme) at any time not later than three business days prior to the proposed general meeting by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the Shares to the relevant option holder credited as fully paid. If the resolution for the voluntary winding-up of the Company as referred to above is duly passed, all options shall, to the extent that they have not been exercised, thereupon lapse automatically and determine.

(l) Rights on a compromise or arrangement

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all option holders on the same date as it despatches the notice which is sent to each member or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon each option holder (or where permitted his personal representatives) may forthwith and until the expiry of the period commencing on such date and ending on the earlier of the date two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the Court be entitled to exercise his option, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. Upon such compromise or arrangement becoming effective, all options shall lapse automatically except insofar as exercised under this section (l). The Company shall thereafter require each option holder who has exercised his option and been issued Shares thereunder to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the option holder in the same position or as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(m) Rights and ranking of Shares

A Share issued upon the exercise of an option to be granted under the New Share Option Scheme shall not carry voting rights until the registration of the option holder (or any other person) as the holder thereof. If under the terms of a resolution passed or an announcement made by the Company prior to the date of exercise of an option, a dividend, or capitalisation of profits or reserves or a rights issue is to be or is proposed to holders of Shares on the register

on a date prior to such date of exercise, the Shares to be issued upon such exercise will not rank for such dividend, capitalisation of profits or reserves or rights issue. Subject as aforesaid, Shares allotted upon the exercise of an option shall rank pari passu in all respects with the Shares in issue on the date of such exercise.

(n) Scheme period

The New Share Option Scheme shall remain valid for a period of ten years commencing on the date on which the New Share Option Scheme is conditionally approved by resolution of the shareholders of the Company in general meeting (the “**Scheme Period**”) after such period no further options shall be offered but the provisions of the New Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any options granted prior thereto.

(o) Termination of the New Share Option Scheme

The Board may terminate the New Share Option Scheme at any time, but options granted prior to such termination shall continue to be valid and exercisable in accordance with the New Share Option Scheme.

(p) Variations of the New Share Option Scheme

The Board may from time to time in their absolute discretion waive or amend the New Share Option Scheme as it deems desirable, PROVIDED THAT, except with the prior sanction of the shareholders of the Company in general meeting, no alteration shall be made to the New Share Option Scheme relating to matters set out in Rule 17.03 of the Listing Rules to the advantage of the option holders, including, but not limited to, amending the Scheme Period, the Option Period or such provisions of the New Share Option Scheme concerning adjustments as described in section (i) above or extending the class of persons eligible for the grant of options or altering any of the provisions of the New Share Option Scheme as to the limitations on the grant of options or as to the determination of Option Prices or as to the adjustment of options or as to the registrations on the exercise of options or as to the rights to be attached upon their issue to Shares issued upon the exercise of options or as to the rights of option holders on the winding-up of the Company or as to the transferability of options PROVIDED FURTHER THAT any alterations to the terms and conditions of the New Share Option Scheme which are of a material nature or any change to the terms of the options granted shall first be approved by the shareholders of the Company, except where such alterations take effect automatically under the existing terms of the New Share Option Scheme; and PROVIDED FURTHER THAT the amended terms of the New Share Option Scheme or the options must still comply with the relevant requirements of Chapter 17 of the Listing Rules.

Any change to the authority of the Board under the New Share Option Scheme in relation to any alteration to the terms thereof must first be approved by the shareholders of the Company in general meeting.

(q) Cancellation of options

The Board shall not effect any cancellation of any options granted but not exercised unless with the agreement of the relevant option holder and in a manner that complies with all applicable legal requirements for such cancellation.

Where the Company cancels any options granted but not exercised and grants new Options, such grant of new options may only be made under the New Share Option Scheme if there is available unissued options (excluding the cancelled options) within the 10% limits as referred to in section (e) above.

(r) Grant of options to connected persons

Where any offer of the grant of options is proposed to be made to an Eligible Participant who is a Director, chief executive or substantial shareholder of the Company, or any of their respective associates, such offer must first be approved by all the independent non-executive Directors (excluding the independent non-executive Director who is the proposed grantee of the options).

If the grant of options is to be made to an Eligible Participant who is a substantial shareholder of the Company or an independent non-executive Director, or any of their respective associates, which would result in the Shares issued and which may fall to be issued upon exercise of all options already granted or to be granted (including options exercised, cancelled and outstanding) to such person under the New Share Option Scheme and any other share option scheme(s) of the Company and/or any of its subsidiaries in the 12-month period up to and including the proposed date of offer of the grant of the option:

- (i) representing in aggregate over 0.1% of the number of Shares then in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on each relevant date on which the grant of such options is made to (and subject to acceptance by) such person under the relevant scheme, in excess of HK\$5 million,

then such offer of the grant of options must be approved by the shareholders of the Company in general meeting with all the connected persons of the Company abstaining from voting on the relevant resolution (except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular required to be issued pursuant to the Listing Rules). Any vote taken at the meeting to approve the proposed grant of such options must be taken on a poll.

APPENDIX II PRINCIPAL TERMS OF THE NEW SHARE OPTION SCHEME
--

In addition, any change in the terms of options granted to an Eligible Participant who is a substantial shareholder of the Company or an independent non-executive Director, or any of their respective associates, must be approved by the shareholders of the Company in general meeting.

(s) Purpose

The purpose of the New Share Option Scheme is to provide incentives to the Eligible Participants to contribute to the Company and to enable the Company to recruit high-calibre employees and attract human resources that are valuable to the Company.

(t) Conditions

The New Share Option Scheme shall take effect subject to the passing of the necessary resolution (i) to adopt the New Share Option Scheme; and (ii) to cancel the existing share option scheme of the Company by the shareholders of the Company in general meeting, and is conditional upon the Listing Committee of the Stock Exchange granting the listing of and permission to deal in any Shares to be issued pursuant to the exercise of options that may be granted under the New Share Option Scheme.