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If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult a 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 ITE (Holdings) Limited, 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 or transfer was effected for transmission to the purchaser or the transferee.

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ITE (HOLDINGS) LIMITED

(incorporated in the Cayman Islands with limited liability)

**PROPOSED TERMINATION OF THE EXISTING SHARE OPTION SCHEME,
ADOPTION OF A NEW SHARE OPTION SCHEME,
AND GRANT OF GENERAL MANDATES TO REPURCHASE SHARES
AND ISSUE NEW SHARES**

A notice convening an annual general meeting of ITE (Holdings) Limited to be held at Tang Room I, 3/F., Sheraton Hong Kong Hotel, 20 Nathan Road, Kowloon, Hong Kong at 10:30 a.m. on Wednesday, 17 July 2002 is set out in pages 61 to 64 of the 2002 annual report of the ITE (Holdings) Limited which will be despatched to the shareholders of the Company on 19 June 2002. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy enclosed in the 2002 annual report of ITE (Holdings) Limited in accordance with the instructions printed thereon and deposit the same with Central Registration Hong Kong Limited, the branch share registrar of ITE (Holdings) Limited in Hong Kong, at Shop 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof should you so wish.

This circular will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and on the website of the Company at www.hkite.com.

19 June 2002

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CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at *www.hkgem.com* in order to obtain up-to-date information on GEM-listed issuers.

DEFINITIONS

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

“Annual General Meeting”	the annual general meeting of the Company to be held at Tang Room I, 3/F., Sheraton Hong Kong Hotel, 20 Nathan Road, Kowloon, Hong Kong on Wednesday, 17 July 2002 at 10:30 a.m., notice of which is set out on pages 61 to 64 of the Annual Report
“Annual Report”	the annual report of the Company for the year ended 31 March 2002
“associates”	has the meaning as defined in the GEM Listing Rules
“Board”	the board of Directors
“Company”	ITE (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on GEM
“connected person(s)”	has the meaning as ascribed to it in the GEM Listing Rules
“Director(s)”	director(s) of the Company
“Existing Options”	means an aggregate of 88,052,000 share options (excluding those that had lapsed and exercised) granted and yet to be exercised under the Pre-IPO Scheme and the Existing Scheme as at the Latest Practicable Date
“Existing Scheme”	the existing share option scheme of the Company adopted pursuant to a resolution in writing passed by all shareholders of the Company on 12 February 2001
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	18 June 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information of this circular
“New Scheme”	the new share option scheme proposed to be adopted by the Company for the benefit of the full time employees and directors of the Company and its subsidiaries and other eligible participants at the Annual General Meeting

DEFINITIONS

“Pre-IPO Scheme”	the share option scheme adopted by the Company pursuant to a resolution in writing passed by all shareholders of the Company on 12 February 2001 under which share options to subscribe for Shares were granted before the listing of the Shares on GEM
“Proposal”	means the termination of the Existing Scheme, the adoption of the New Scheme and the grant of a general authorisation to the Directors to grant options under the New Scheme of up to 10% of the issued share capital of the Company as at the date of the Annual General Meeting
“Repurchase Proposal”	the proposal to give a general mandate to the Directors to exercise the powers of the Company to repurchase during the period as set out in the Repurchase Resolution Shares up to a maximum of 10% of the share capital of the Company in issue as at the date of the Repurchase Resolution
“Repurchase Resolution”	the proposed ordinary resolution as referred to in resolution no. 4B of the notice of the Annual General Meeting
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Share Repurchase Rules”	the relevant rules set out in the GEM Listing Rules to regulate the repurchase by companies with primary listing on the GEM of their own securities on the GEM
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

1. the information contained in this circular is accurate and complete in all material respects and not misleading;
2. there are no other matters the omission of which would make any statement in this circular misleading; and
3. all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

LETTER FROM THE BOARD



ITE (HOLDINGS) LIMITED

(incorporated in the Cayman Islands with limited liability)

Directors:

Executive Directors:

Lau Hon Kwong, Vincent (*Chairman*)
George Roger Manho
Cheng Kwok Hung
Liu Hoi Wah

Independent non-executive Directors:

Lee Peng Fei, Allen
Tsao Kwang Yung, Peter

Registered Office:

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

Head Office and

Principal Place of Business:
Floor 21, Stelux House
698 Prince Edward Road East
San Po Kong
Kowloon

19 June 2002

*To the Shareholders and,
for information only, the optionholders*

Dear Sirs

**PROPOSED TERMINATION OF THE EXISTING SHARE OPTION SCHEME,
ADOPTION OF A NEW SHARE OPTION SCHEME,
AND GRANT OF GENERAL MANDATES TO REPURCHASE SHARES
AND ISSUE NEW SHARES**

INTRODUCTION

The purpose of this circular is to give you further information regarding the ordinary resolutions to repurchase Shares, to issue new Shares and to pass the Proposal and to seek your approval of the resolutions in relation thereto to be proposed at the Annual General Meeting.

Three respective ordinary resolutions will be proposed at the Annual General Meeting to enable the Directors to exercise the powers of the Company (i) to undertake repurchases on GEM of the Company's fully paid up Shares representing up to a maximum of 10% of the existing issued share capital of the Company (ii) to issue new Shares up to 20% of the issued share capital of the Company and (iii) to increase the number of Shares which the Directors may issue under the general mandate by the number of Shares repurchased under the repurchase mandate.

LETTER FROM THE BOARD

Pursuant to an ordinary resolution in writing passed by all shareholders of the Company on 12 February 2001, the Company adopted the Existing Scheme pursuant to which the Directors were authorised to grant options to employees of the Company or its subsidiaries, including executive directors of such company, to subscribe for Shares.

Under the GEM Listing Rules, the Company is required to provide you with information reasonably necessary to enable you to make an informed decision as to whether to vote for or against the resolutions to be proposed at the Annual General Meeting. This circular is prepared for such purpose.

THE PROPOSAL

Termination of the Existing Scheme and adoption of the New Scheme

Existing Options

As at the Latest Practicable Date, there were 907,996,000 Shares in issue. Particulars of the Existing Options as at the Latest Practicable Date are set out below:

	Number of options originally granted	Percentage in issued share capital as at the Latest Practicable Date	Number of options lapsed	Percentage in issued share capital as at the Latest Practicable Date	Number of options exercised	Percentage in issued share capital as at the Latest Practicable Date	Number of options outstanding as at the Latest Practicable Date	Percentage in issued share capital as at the Latest Practicable Date
Pre-IPO Scheme	80,000,000	8.81	nil	N/A	9,860,000	1.09	70,140,000	7.72
Existing Scheme	<u>20,028,000</u>	<u>2.21</u>	<u>2,116,000</u>	<u>0.23</u>	<u>nil</u>	<u>N/A</u>	<u>17,912,000</u>	<u>1.98</u>
Total	<u><u>100,028,000</u></u>	<u><u>11.02</u></u>	<u><u>2,116,000</u></u>	<u><u>0.23</u></u>	<u><u>9,860,000</u></u>	<u><u>1.09</u></u>	<u><u>88,052,000</u></u>	<u><u>9.70</u></u>

Out of the Existing Options to subscribe for 88,052,000 Shares, Existing Options to subscribe for 70,140,000, 6,576,000, 9,336,000 and 2,000,000 Shares are exercisable at a price of HK\$0.095, HK\$0.455, HK\$0.35 and HK\$0.195 respectively.

The Directors confirm that they will not further exercise their authorities in granting options under the Existing Scheme and no further option will be granted under the Existing Scheme prior to its termination and the adoption of the New Scheme at the Annual General Meeting.

Under the terms of the Existing Scheme, the Company may by ordinary resolution at general meeting terminate the operation of the Existing Scheme. Upon termination of the Existing Scheme, no further options would be offered pursuant to the Existing Scheme but the Existing Scheme would in all other respects remain in force to the extent necessary to give effect to the exercise of the Existing Options granted thereunder. The Existing Options granted thereunder will continue to be valid and exercisable in accordance with the provisions of the Existing Scheme.

LETTER FROM THE BOARD

Under the Pre-IPO Scheme, no further options could be granted after the Shares were listed on GEM on 21 February 2001. The Pre-IPO Scheme would, however, in all other respects remain in force to the extent necessary to give effect to the exercise of the Existing Options granted thereunder. The Existing Options granted thereunder will continue to be valid and exercisable in accordance with the provisions of the Pre-IPO Scheme.

Reasons for the proposal

Chapter 23 of the GEM Listing Rules deals with share option schemes of listed companies on GEM. Major amendments have recently been introduced to Chapter 23 of the GEM Listing Rules. These amendments came into effect on 1 October 2001.

Options may no longer be granted under the Existing Scheme by the Company unless such grants have been made in compliance with the amended rules. Therefore, the Board wishes to propose to the Shareholders that the Company should terminate its Existing Scheme and adopt the New Scheme, the terms of which comply with the amended Chapter 23. The Directors consider that the adoption of the New Scheme is in the interests of the Company and the Shareholders as a whole because it enables the Company to reward and provide incentives to its employees and other classes of persons who contributed or may contribute to the growth and development of the Group.

Set out in Appendix I to this circular are the principal terms of the New Scheme, under which the maximum number of Shares which might be allotted and issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option scheme of the Group (including the Pre-IPO Scheme and the Existing Scheme) could represent up to 30% of the issued share capital of the Company from time to time.

Conditions of the adoption of the New Scheme

The adoption of the New Scheme is conditional upon, among other matters, (i) the termination of the Existing Scheme by an ordinary resolution at the Annual General Meeting; (ii) the approval by an ordinary resolution of the New Scheme at the Annual General Meeting and of allotment and issue of Shares which fall to be allotted and issued upon the exercise of the options granted or to be granted under the New Scheme; and (iii) the Stock Exchange granting the listing of, and permission to deal in, the Shares which fall to be allotted and issued upon exercise of the options granted under the New Scheme.

The Directors will seek approval of the Shareholders at the Annual General Meeting for the termination of the Existing Scheme and the adoption of the New Scheme in accordance with the GEM Listing Rules and the allotment and issue of 90,799,600 Shares, representing 10% of the Shares in issue as at the Latest Practicable Date, which may fall to be allotted and issued upon exercise of the options granted under the New Scheme.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be allotted and issued upon exercise of the options granted under the New Scheme.

LETTER FROM THE BOARD

General mandate to Directors to grant options

Subject to the approval of the New Scheme by the Shareholders, a resolution will be proposed at the Annual General Meeting for the grant of general authority (the “**Share Option Mandate**”) to the Directors to grant options under the New Scheme for the subscription of not more than 90,799,600 Shares, representing 10% of the entire issued capital of the Company as at the date of the passing of the relevant resolution.

As at the Latest Practicable Date, the Company had granted the Existing Options to subscribe for an aggregate of 88,052,000 Shares (representing approximately 9.70% of the Shares in issue as at the Latest Practicable Date). The total amount of Shares that may fall to be allotted and issued upon exercise in full of the Existing Options and the share options that may be granted under the Share Option Mandate is 178,851,600, representing 19.70% of the Shares in issue as at the Latest Practicable Date which is within the overall limit of 30% prescribed under Rule 23.03(3) of the GEM Listing Rules.

Values of all options that can be granted under the New Scheme

The calculation of the value of the options is based on a number of variables such as the exercise price, the exercise period, interest rate, expected volatility and other relevant variables. Since no options were granted under the New Scheme as at the Latest Practicable Date, certain variables are not available for calculating the value of the options. The Directors therefore consider that it is not appropriate to state the value of all options that can be granted pursuant to the New Scheme as if they had been granted as at the Latest Practicable Date, and that any calculation of the value of the options based on a great number of speculative assumptions would not be meaningful and would be misleading to the Shareholders.

GENERAL MANDATE TO REPURCHASE SHARES

Pursuant to a resolution of all shareholder(s) of the Company passed on 10 July 2001, a general mandate was given to the Directors to exercise the powers of the Company to repurchase 10% of the Shares of the Company. Such mandate will lapse at the conclusion of the forthcoming Annual General Meeting. The Directors propose to seek your approval of the Repurchase Resolution to be proposed at the Annual General Meeting. An explanatory statement as required under the Share Repurchase Rules to provide the requisite information of the Repurchase Proposal is set out in Appendix II 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 share capital of the Company in issue as at the date of the resolution 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 share capital of the Company in issue at the date of the Repurchase Resolution.

LETTER FROM THE BOARD

THE ANNUAL GENERAL MEETING

On pages 61 to 64 of the Annual Report, you will find a notice convening the Annual General Meeting at which:-

- an ordinary resolution will be proposed to grant to the Directors a general mandate to authorise the Directors to issue, allot and deal with Shares not exceeding 20% of the share capital of the Company in issue as at the date of the resolutions;
- an ordinary resolution will be proposed to grant to the Directors a general mandate to exercise all powers of the Company to repurchase on the Stock Exchange Shares representing up to 10% of the share capital of the Company in issue as at the date of the Repurchase Resolution;
- an ordinary resolution will be proposed to extend the general mandate which will be granted to the Directors to issue, allot and deal with additional Shares by adding to it the number of Shares repurchased under the Repurchase Proposal after the granting of the general mandate;
- the general mandate passed on 10 July 2001 will lapse at the conclusion of the forthcoming annual general meeting of the Company;
- an ordinary resolution will be proposed to terminate the Existing Scheme;
- an ordinary resolution will be proposed to adopt the New Scheme; and
- an ordinary resolution will be proposed to grant to the Directors the Share Option Mandate and powers to allot, issue and otherwise deal with Shares pursuant to the exercise of options granted under the New Scheme which shall not exceed 10% of the Shares in issue as at the Latest Practicable Date.

A form of proxy for use at the Annual General Meeting is enclosed with the Annual Report. To be valid, the form of proxy must be completed in accordance with the instructions printed thereon and deposited, together with power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, at the Company's branch share registrar of the Company in Hong Kong, Central Registration Hong Kong Limited, at Shop 1712 – 1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 10:30 a.m. on 15 July 2002. Completion and delivery of the form of proxy will not prevent you from attending and voting at the Annual General Meeting or any adjournment thereof should you so wish.

RECOMMENDATION

The Directors believe that the Proposal, the Repurchase Proposal and the general mandate for Directors to issue new Shares are all in the best interests of the Company and its shareholders. Share repurchase may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the earnings per Share and will only be made when the Directors believe that such a share repurchase will benefit the Company and its shareholders. Accordingly, the Directors recommend that all shareholders should vote in favour of the resolutions set out in the notice of Annual General Meeting as they intend to do themselves in respect of their own holdings, if any.

LETTER FROM THE BOARD

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's head office and principal place of business in Hong Kong at Floor 21, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong during normal business hours on any business day up to and including Monday, 8 July 2002 and at the Annual General Meeting:

- (i) the memorandum of association and articles of association of the Company; and
- (ii) the New Scheme.

An announcement on the outcome of the ordinary resolutions to be proposed at the Annual General Meeting will be made by the Company upon passing of the relevant ordinary resolutions at the Annual General Meeting.

By Order of the Board
Lau Hon Kwong, Vincent
Chairman

Set out below is a summary of the principal terms and conditions of the New Scheme to provide sufficient information to the Shareholders for their consideration of the New Scheme proposed to be adopted at the Annual General Meeting.

(i) Purpose of the scheme

The purpose of the New Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group.

(ii) Who may join

The Directors may, at their absolute discretion, make an offer to any person belonging to any of the following classes of participants, to subscribe for Shares:

- (aa) any employee (whether full time or part time, including any executive director but excluding any non-executive director) of the Company, any of its subsidiaries or any entity (“**Invested Entity**”) in which any member of the Group holds any equity interest (“**Eligible Employees**”);
- (bb) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of the Group or any Invested Entity;
- (dd) any customer of the Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (ff) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity;
- (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Entity; and
- (hh) any joint venture partners or counter-parties that co-operates with any member of the Group or any Invested Entity in any area of business operation or development,

and, for the purposes of the New Scheme, the offer may be made to any company wholly owned by one or more persons belonging to any of the above classes of participants. For the avoidance of doubt, the grant of any options by the Company for the subscription of Shares or other securities of the Group to any person who fall within any of the above classes of participants shall not, by itself, unless the Directors otherwise determined, be construed as a grant of option under the New Scheme.

The basis of eligibility of any of the above class of participants to offer for the grant of any options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group.

(iii) Maximum number of Shares

- (aa) The maximum number of securities which may be issued upon exercise all outstanding options granted and yet to be exercised under the New Scheme and any other share option scheme of the Group must not in aggregate exceed 30 per cent. of the relevant class of securities of the Company (or the subsidiary) in issue from time to time.
- (bb) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the New Scheme and any other share option scheme of the Group) to be granted under the New Scheme and any other share option scheme of the Group must not in aggregate exceed 90,799,600 Shares, representing 10 per cent. of the Shares in issue as at the date of passing of the relevant resolution adopting the New Scheme (“**General Scheme Limit**”).
- (cc) Subject to (aa) above and without prejudice to (dd) below, the Company may issue a circular to its shareholders and seek approval of its shareholders in general meeting to extend the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the New Scheme and any other share options scheme of the Group must not exceed 10 per cent. of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the New Scheme and any other share option scheme of the Group) previously granted under the New Scheme and any other share option scheme of the Group will not be counted.
- (dd) Subject to (aa) above and without prejudice to (cc) above, the Company may issue a circular to its shareholders and seek separate shareholders’ approval in general meeting to grant options beyond the General Scheme Limit or, if applicable, the extended limit referred to in (cc) above to participants specifically identified by the Company before such approval is sought. The Company must send a circular to its shareholders containing a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose, the information required under Rule 23.02(2)(d) of the GEM Listing Rules and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted or to be granted under the New Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each grantee in any 12-month period up to the date of grant shall not exceed one per cent. of the issued share capital of the Company for the time being (“**Individual Limit**”). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant shall be subject to the issue of a circular to the shareholders and the shareholders’ approval in general meeting of the Company with such grantee and his associates (as defined under the GEM Listing Rules) abstaining from voting.

(v) Grant of options to a director, chief executive, management shareholder or substantial shareholder of the Company, or any of their respective associates

- (aa) Any grant of options under the New Scheme to a director, chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates (as defined under the GEM Listing Rules) must be approved by independent non-executive directors of the Company (excluding any independent non-executive director who or whose associate is the proposed grantee of the options).
- (bb) Where any grant of options to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:
- (i) representing in aggregate over 0.1 per cent. of the Shares in issue; and
 - (ii) having an aggregate value, based on the closing price of the Shares at the date of offer for the grant of option, in excess of HK\$5 million;

such further grant of options must be approved by shareholders of the Company. The Company shall send a circular to the shareholders. All connected persons of the Company must abstain from voting at such general meeting, 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. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates must be approved by the shareholders of the Company in general meeting.

(vi) Time of acceptance and exercise of option

An option may be accepted by a participant within 21 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the New Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day after the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the New Scheme for holding of an option before it can be exercised.

(vii) Performance targets

Unless the Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the New Scheme can be exercised.

(viii) Subscription price for Shares

The subscription price for Shares under the New Scheme shall be a price determined by the Directors, but shall not be less than the highest of (aa) the closing price of the Shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (bb) the average closing price of the Shares on GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (cc) the nominal value of the Shares.

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(ix) Ranking of Shares

(aa) Shares allotted upon the exercise of an option will be subject to all the provisions of the articles of association of the Company and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised (the “**Exercise Date**”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee as the holder thereof.

(bb) Unless the context otherwise requires, references to “Shares” in this paragraph include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a sub-division, consolidation, re-classification or reduction of the share capital of the Company from time to time.

(x) Restrictions on the time of grant of options

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the GEM Listing Rules. In particular, during the period of one month immediately preceding the earlier of: (aa) the date of the board meeting for the approval of the Company's annual, half-year or quarter-year results; and (bb) the deadline for the Company to publish its annual, half-year or quarter-year results under the GEM Listing Rules, and ending on the date of the results announcement, no offer for the grant of option may be made.

The Directors may not grant any option to a participant who is a Director during the periods or times in which Directors are prohibited from dealing in Shares under such circumstances as prescribed by the GEM Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

(xi) Period of the New Scheme

The New Scheme will remain in force for a period of 10 years commencing on the date on which the New Scheme becomes unconditional.

(xii) Rights on ceasing employment

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee for any reason other than death, ill-health or retirement in accordance with his contract of employment or for serious misconduct or other grounds referred to in subparagraph (xiv) below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not.

(xiii) Rights on death, ill-health or retirement

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his death, ill-health or retirement in accordance with his contract of employment before exercising the option in full, his personal representative(s), or, as appropriate, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of 12 months following the date of cessation which date shall be the last day on which the grantee was at work with the Group or the Invested Entity whether salary is paid in lieu of notice or not.

(xiv) Rights on dismissal

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of serious misconduct or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Group or the Invested Entity into disrepute), his option will lapse automatically and will not in any event be exercisable on or after the date of cessation to be an Eligible Employee.

(xv) Rights on breach of contract

If the Directors shall at their absolute discretion determine that (aa) the grantee of any option (other than an Eligible Employee) or his associate has committed any breach of any contract entered into between the grantee or his associate on the one part and the Group or any Invested Entity on the other part or that the grantee has committed any act of bankruptcy or has become insolvent or is subject to any winding-up, liquidation or analogous proceedings; and (bb) the option granted to the grantee under the New Scheme shall lapse, his option will lapse automatically and will not in any event be exercisable on or after the date on which the Directors have so determined.

(xvi) Rights on a general offer, a compromise or arrangement

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement 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 association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, shareholders of the Company. If such offer becomes or is declared unconditional, a grantee shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in exercise of his option at any time before the close of such offer (or any revised offer). Subject to the above, an option will lapse automatically (to the extent not exercised) on the date on which such offer (or, as the case may be, revised offer) closes.

(xvii) Rights on winding up

In the event of an effective resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time prior to the date on which such resolution is passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the New Scheme and shall accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his option, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the Shares in issue on the day prior to the date of such resolution.

(xviii) Adjustments to the subscription price

In the event of any alteration in the capital structure (including a capitalisation issue, rights issue, sub-division or consolidation of Shares or reduction of capital) of the Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to the Company as fair and reasonable will be made to the number or nominal amount of Shares the subject matter of the New Scheme and the option so far as unexercised and/or the option price and/or the method of exercise of the option concerned, provided that (aa) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (bb) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option granted to him shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (cc) no adjustment shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (dd) the issue of Shares or other securities of the Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the GEM Listing Rules.

(xix) Cancellation of options

Any cancellation of options granted but not exercised must be approved by the Directors.

Where the Company cancels any option granted to a grantee but not exercised and issue new option(s) to the same grantee, the issue of such new option(s) may only be made with available unissued options (excluding the options so cancelled) within the General Scheme Limit or the limits approved by the shareholders of the Company pursuant to subparagraph (iii)(cc) and (dd).

(xx) Termination of the New Scheme

The Company may by resolution in general meeting at any time terminate the New Scheme and in such event no further options shall be offered but in all other respects the provisions of the New Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the New Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the New Scheme.

(xxi) Rights are personal to the grantee

An option is personal to the grantee and shall not be transferable or assignable.

(xxii) Lapse of option

An option shall lapse automatically (to the extent not already exercised) on the earliest of:-

- (aa) the expiry of the period referred to paragraph (vi); and
- (bb) the expiry of the periods or dates referred to in paragraphs (xii), (xiii), (xiv), (xv), (xvi) and (xvii).

(xxiii) Others

- (aa) The New Scheme is conditional on the GEM Listing Committee granting approval of the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the New Scheme.
- (bb) The terms and conditions of the New Scheme relating to the matters set out in Chapter 23 of the GEM Listing Rules shall not be altered to the advantage of grantees of the options except with the approval of the shareholders in general meeting.
- (cc) Any alterations to the terms and conditions of the New Scheme which are of a material nature or any change to the terms of options granted must be approved by the shareholders of the Company in general meeting, except where the alterations take effect automatically under the existing terms of the New Scheme.

- (dd) The amended terms of the New Scheme or the options shall comply with the relevant requirements of Chapter 23 of the GEM Listing Rules.
- (ee) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the New Scheme shall be approved by the shareholders of the Company in general meeting.

(xxiv) Present status of the New Scheme

Application will be made to the Stock Exchange for the approval of the New Scheme and the listing of, and permission to deal in, the Shares to be issued pursuant to the exercise of any options which may be granted under the New Scheme.

This appendix serves as an explanatory statement, as required by the Share Repurchase Rules, to provide requisite information to you for your consideration of the proposal to permit the repurchase of Shares up to a maximum of 10% of the share capital of the Company in issue as at the date of the Repurchase Resolution. For the purpose of this Appendix, the term “shares” shall be as defined in the Takeover Code on the Share Repurchases to mean shares of all classes and securities which carry a right to subscribe or purchase shares.

1. Share Capital

As at the Latest Practicable Date, the issued share capital of the Company comprised 907,996,000 Shares.

Subject to the passing of the Repurchase Resolution and on the basis that no further Shares are issued or repurchased prior to the Annual General Meeting, the Company would be allowed under the Repurchase Resolution to repurchase Shares up to a maximum of 90,799,600 Shares representing not more than 10% of the share capital of the Company in issue at the Latest Practicable Date.

2. Reasons for Repurchase

The Directors believe that it is in the best interest of the Company and its shareholders for the Directors to have general authority from the shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders.

3. Funding of Repurchase

In repurchasing any Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association and the applicable laws and regulations of the Cayman Islands. The Company may not purchase securities on the GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

There might be an 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 31 March 2002 in the event that the power to repurchase Shares pursuant to the Repurchase Proposal was to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the power to repurchase Shares pursuant to Repurchase Proposal to such an extent as would, in the circumstances, have a material adverse effect 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.

4. Share Prices

The highest and lowest prices at which the Shares have traded on the Stock Exchange in each of the previous six months before the Latest Practicable Date are as follows:

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
December 2001	0.255	0.185
January 2002	0.295	0.191
February 2002	0.265	0.240
March 2002	0.245	0.215
April 2002	0.220	0.200
May 2002	0.200	0.175
June 2002 (up to Latest Practicable Date)	0.200	0.175

5. Undertaking

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 GEM Listing Rules, the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

None of the Directors nor, to the best of their knowledge and belief having made all reasonable enquiries, their associates, have any present intention to sell any Shares to the Company or its subsidiaries under the Repurchase Proposal if such is approved by the shareholders.

No other connected persons of the Company (as defined in the GEM Listing Rules) has notified the Company that they have a present intention to sell Shares to the Company or its subsidiaries, or have undertaken not to do so, in the event that the Repurchase Proposal is approved by the shareholders.

6. Takeovers Code

Assuming that the substantial shareholders of the Company (the “Substantial Shareholders”) do not dispose of its Shares, if the Repurchase Proposal was exercised in full, the percentage of the Substantial Shareholders before and after such repurchase would be as follows:–

Substantial Shareholders	Before repurchase	After repurchase
Rax-Comm (BVI) Limited	54.73%	60.82%
George Roger Manho	16.32%	18.13%

If, as a result of a securities repurchase, a 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 Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with rule 26 of the Takeover Code.

Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Proposal to repurchase shares. However, the Company may not repurchase Shares which would result in the amount of Shares held by the public being reduced to less than 20%.

7. Share Repurchases made by the Company

The Company had not purchased any Shares (whether on the Stock Exchange or otherwise) in the six months preceding the Latest Practicable Date.