

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 to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **Xinao Gas 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 was effected for transmission to the purchaser or the transferee.

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



XINAO GAS HOLDINGS LIMITED

新奧燃氣控股有限公司*

(incorporated in the Cayman Islands with limited liability)

**PROPOSED VOLUNTARY WITHDRAWAL OF LISTING
ON THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED,
PROPOSED TERMINATION OF
EXISTING SHARE OPTION SCHEME
AND PROPOSED ADOPTION OF
PROPOSED SHARE OPTION SCHEME
AND PROPOSED ARTICLES OF ASSOCIATION
IN SUBSTITUTION OF THE EXISTING
ARTICLES OF ASSOCIATION**

A letter from the board of directors of Xinao Gas Holdings Limited (the “Company”) is set out on pages 6 to 11 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Taishan Room, 5th Floor, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Admiralty, Hong Kong on Tuesday, 21 May 2002 at 9:45 a.m. (or as soon as practicable immediately after the conclusion or adjournment of the annual general meeting of the Company to be convened at the same place and date at 9:30 a.m.) or any adjournment thereof is set out on pages 37 to 39 of this circular.

Whether or not you are able to attend the extraordinary general meeting of the Company, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Central Registration Hong Kong Limited, the branch share registrar of the Company in Hong Kong (at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong) as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the extraordinary general meeting of the Company. Completion of the form of proxy will not preclude you from attending and voting at the extraordinary general meeting of the Company, or any adjourned meeting, should you so wish.

This circular will remain on the GEM website at “www.hkgem.com” on the “Latest Company Announcements” page for a minimum period of seven days from the date of publication.

* For identification only

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 these 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. GEM-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.

CONTENTS

	<i>Page</i>
Definitions	1
Responsibility statement	4
Expected timetable	5
Letter from the Board	
Background	6
The Proposed Withdrawal and the Introduction	7
Effects of the Proposed Withdrawal	8
Reasons for the Introduction	8
Proposed Share Option Scheme	9
Proposed Articles of Association	9
Extraordinary General Meeting	10
Documents available for inspection	11
Additional information	11
Appendix I – Summary of the principal terms of the Proposed Share Option Scheme	12
Appendix II – Summary of the principal terms of the Proposed Articles of Association	20
Notice of the Extraordinary General Meeting	37

DEFINITIONS

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

“Articles of Association”	the articles of association adopted by the Company on 28 March 2001
“Board”	the board of Directors
“Business Day(s)”	any day(s) on which the Stock Exchange is open for the business of dealings in securities
“Companies Law”	the Companies Law (2001 Second Revision) (Chapter 22 of the Laws of the Cayman Islands)
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company” or “Xinao”	Xinao Gas Holdings Limited, an exempted company incorporated in the Cayman Islands on 20 July 2000 with limited liability, the Shares of which are listed on GEM
“Director(s)”	the director(s) of the Company
“Easywin”	Easywin Enterprises Limited, a company incorporated in the British Virgin Islands on 18 July 2000 with limited liability which is owned as to 50% by Mr. Wang and 50% by Ms. Zhao. Easywin is a controlling Shareholder (as defined in the GEM Listing Rules)
“Effective Date”	on or about 3 June 2002, the day on which the Proposed Withdrawal becomes effective
“Extraordinary General Meeting”	an extraordinary general meeting of the Company to be held on Tuesday, 21 May 2002 at 9:45 a.m. (or as soon as practicable immediately after the conclusion or adjournment of the annual general meeting of the Company to be convened at the same place and date at 9:30 a.m.) or any adjournment thereof, the notice of which is set out on pages 37 to 39 of this circular
“GEM”	the Growth Enterprise Market of 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 PRC
“Introduction”	the proposed listing of the Shares on the Main Board by way of an introduction pursuant to the Listing Rules

DEFINITIONS

“Langfang BVI”	Xinao Langfang Investment Limited, an indirect wholly owned subsidiary of the Company incorporated in the British Virgin Islands on 21 February 2000 with limited liability and is an investment holding company
“Langfang Xinao”	廊坊新奧燃氣有限公司 (Langfang Xinao Gas Company Limited*), a Sino-foreign equity joint venture originally established in the PRC on 28 March 1993 and was converted into a wholly owned foreign enterprise of Langfang BVI on 21 December 2001
“Latest Practicable Date”	18 April 2002, being the latest practicable date of ascertaining certain information contained in this circular prior to its publication
“Listing Committee”	the listing sub-committee of the Directors of the Stock Exchange responsible for Main Board listing matters
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the securities market operated by the Stock Exchange prior to the establishment of GEM and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM
“Mr. Wang”	Mr. Wang Yusuo (王玉鎖先生), the chairman of the Company and an executive Director, and the spouse of Ms. Zhao. Mr. Wang is a controlling Shareholder (as defined in the GEM Listing Rules)
“Ms. Zhao”	Ms. Zhao Baoju (趙寶菊女士), a non-executive Director and the spouse of Mr. Wang. Ms. Zhao is a controlling Shareholder (as defined in the GEM Listing Rules)
“PRC”	the People’s Republic of China, which for the purposes of this circular, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Proposed Articles of Association”	the articles of association proposed to be adopted at the Extraordinary General Meeting, the principal terms of which are summarised in Appendix II to this circular
“Proposed Share Option Scheme”	the share option scheme proposed to be adopted at the Extraordinary General Meeting, the principal terms of which are summarised in Appendix I to this circular
“Proposed Withdrawal”	the proposed voluntary withdrawal of listing of the Shares on GEM

DEFINITIONS

“Rothschild”	N M Rothschild & Sons (Hong Kong) Limited
“Share Option Scheme”	the share option scheme for employees and directors of the Group conditionally adopted by the Company on 24 April 2001
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	registered holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$” or “cents”	Hong Kong dollars or cents, the lawful currency of Hong Kong
“%”	per cent.

* *For identification only*

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:

- (i) the information contained in this circular is accurate and complete in all material respects and not misleading;
- (ii) there are no other matters the omission of which would make any statement in this circular misleading; and
- (iii) 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.

EXPECTED TIMETABLE

The expected timetable for the Proposed Withdrawal and the Introduction is set out below:

Despatch of circulars and forms of proxy to the Shareholders for the Extraordinary General Meeting	23 April 2002
Latest time for lodgement of forms of proxy for the Extraordinary General Meeting	9:45 a.m. on 19 May 2002
Extraordinary General Meeting	9:45 a.m. on 21 May 2002
Notice of the Proposed Withdrawal to be published in the South China Morning Post, the Hong Kong Economic Times and on the GEM website	22 May 2002
Last day of dealings in the Shares on GEM	31 May 2002
Withdrawal of listing from GEM effective from	10:00 a.m. on 3 June 2002
First day of dealings in the Shares on the Main Board	3 June 2002

LETTER FROM THE BOARD



XINAO GAS HOLDINGS LIMITED

新奧燃氣控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Executive Directors:

Mr. Wang Yusuo
Mr. Yang Yu
Mr. Zhao Jinfeng
Mr. Qiao Limin
Mr. Jin Yongsheng
Mr. Yu Jianchao
Mr. Cheung Yip Sang
Mr. Cheng Chak Ngok

Non-executive Director:

Ms. Zhao Baoju

Independent non-executive Directors:

Mr. Wang Guangtian
Mr. Xu Liang

Registered office:

Ugland House
P O Box 309
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal office in Hong Kong:

Room 4202
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Head office in the PRC:

Huaxiang Road
Langfang Economic and
Technical Development Zone
Langfang City
Hebei Province
The PRC

23 April 2002

To the Shareholders

Dear Sir or Madam,

**PROPOSED VOLUNTARY WITHDRAWAL OF LISTING
ON THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED,
PROPOSED TERMINATION OF
EXISTING SHARE OPTION SCHEME
AND PROPOSED ADOPTION OF
PROPOSED SHARE OPTION SCHEME
AND PROPOSED ARTICLES OF ASSOCIATION
IN SUBSTITUTION OF THE EXISTING
ARTICLES OF ASSOCIATION**

BACKGROUND

On 20 February 2002, Xinao announced that Rothschild has, on its behalf, submitted an advance booking form of an application to the Stock Exchange for the proposed listing of the Shares on the Main Board by way of an introduction and informed the Stock Exchange of its intention to voluntarily withdraw the listing of the Shares on GEM.

* For identification only

LETTER FROM THE BOARD

The purpose of this circular is to provide you with information relating to the Introduction, the Proposed Withdrawal, the Proposed Share Option Scheme and the Proposed Articles of Association and to seek your approval of the relevant resolutions relating to the Proposed Withdrawal, the reduction of notice period for the Proposed Withdrawal, the Proposed Share Option Scheme and the Proposed Articles of Association to be proposed at the Extraordinary General Meeting.

THE PROPOSED WITHDRAWAL AND THE INTRODUCTION

On 20 February 2002, Rothschild submitted an advance booking form on behalf of the Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any options which were granted under the Share Option Scheme and which may be granted under the Proposed Share Option Scheme on the Main Board. The Stock Exchange informed Rothschild on 22 April 2002 that the Listing Committee has granted an approval in principle of the listing of, and permission to deal in, the Shares on the Main Board. Immediately prior to the listing of the Shares on the Main Board, the listing of the Shares on GEM will be withdrawn.

Under the GEM Listing Rules, an issuer that has an alternative listing on another stock exchange or securities market recognised for this purpose by the Stock Exchange may not voluntarily withdraw its listing on GEM unless:

- (i) the prior approval of the shareholders of the issuer has been obtained by way of an ordinary resolution passed at a duly convened meeting of the shareholders of the issuer; and
- (ii) the issuer has given its shareholders at least three months' notice of the proposed withdrawal of listing.

In connection with the Proposed Withdrawal, the Company has applied to the Stock Exchange for, and the GEM Listing Committee of the Stock Exchange has granted, a waiver for the minimum three months' notice required under the GEM Listing Rules, subject to the fulfillment of the following conditions:

- (i) the notice period for the Proposed Withdrawal shall be a minimum of five clear Business Days after the approval of the Shareholders for the Proposed Withdrawal shall have been obtained;
- (ii) the prior approval of the Shareholders for the reduction of notice period for the Proposed Withdrawal to a minimum of five clear Business Days shall have been obtained;
- (iii) in respect of the Shares, there is no change in the board lot size or share certificates, the share registrar and the trading currency in connection with the proposal to transfer its listing status; and
- (iv) there is no other fact that leads the Stock Exchange to believe that the reduced notice period is not feasible.

Accordingly, the Extraordinary General Meeting is convened to seek approval of the Shareholders for, amongst other things, the Proposed Withdrawal and after such approval shall have been obtained, a notice of the Proposed Withdrawal will be published.

LETTER FROM THE BOARD

The Proposed Withdrawal and the Introduction are conditional upon, amongst other things:

- (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any options which were granted under the Share Option Scheme and which may be granted under the Proposed Share Option Scheme on the Main Board;
- (ii) the GEM Listing Committee granting a waiver for the reduction of the notice period for the Proposed Withdrawal;
- (iii) the passing of an ordinary resolution by the Shareholders at the Extraordinary General Meeting to approve the Proposed Withdrawal and the reduction of the notice period for the Proposed Withdrawal; and
- (iv) the publication of a notice of the Proposed Withdrawal after the approval of the Shareholders for the Proposed Withdrawal shall have been obtained at the Extraordinary General Meeting which notice period shall not be less than five clear Business Days before the Effective Date.

The GEM Listing Committee has, on 17 April 2002, granted a conditional waiver for the reduction of the notice period for the Proposed Withdrawal.

EFFECTS OF THE PROPOSED WITHDRAWAL

It is expected that dealings in the Shares on GEM will cease at 10:00 a.m. on the Effective Date and dealings in the Shares on the Main Board will commence at 10:00 a.m. on the Effective Date. The Company will make further announcement after the Extraordinary General Meeting to publish the results of the Extraordinary General Meeting and the information relating to the Proposed Withdrawal and the trading arrangement of the Shares in respect of the Proposed Withdrawal and the Introduction.

The Proposed Withdrawal and the Introduction will not have any effect on the existing share certificates and the share certificates will continue to be good evidence of legal title and does not involve any transfer or exchange of the existing share certificates. No change is proposed to be made to the board lot size, trading currency of the Shares and the share registrars of the Company in connection with the Proposed Withdrawal and the Introduction. If and when the Shares are listed on the Main Board, you may be required to sign a new client agreement with your stockbrokers.

The continuing obligations of listed issuers under the Listing Rules and the GEM Listing Rules are not the same. For example, the principal means of information dissemination by listed issuers on GEM is via the publication on the internet website operated by the Stock Exchange whereas the principal means of information dissemination for Main Board's listed issuers is through newspapers, also Main Board's listed issuers are not required to publish quarterly reports.

REASONS FOR THE INTRODUCTION

The Group's business operations began in 1993 when Langfang Xinao was formed to invest in the construction of gas pipeline infrastructure for the sale and distribution of piped natural gas in the Langfang Economic and Technical Development Zone in Langfang, Hebei Province, the PRC. Following the completion of a reorganisation in March 2001, the Company became the

LETTER FROM THE BOARD

holding company of the Group which is engaged in the investment in, and the operation and management of, gas pipeline infrastructure and the sale and distribution of piped gas in the PRC. Its business activities also consist of the sale of gas appliances and equipment, the production of stored value card gas metres and the provision of repair, maintenance and other services in connection with gas supply. The Shares were listed on GEM on 10 May 2001.

The acquisitions and formation of new project companies after its listing on GEM represented major initial steps in the Company's business expansion. Now the Company has grown substantially and has generated sufficient profits to fulfill the Main Board's profit requirements. Furthermore, due to Xinao's increased profile and market capitalisation, the Company has targeted to improve its shareholder base, liquidity of Shares and recognitions by attracting larger institutional and retail investors.

The Introduction will not affect the existing underlying business objectives and strategies of the Group. The Company will continue with its business operations and will continue to actively explore and identify suitable investment opportunities in the downstream market in the PRC.

In view of the above circumstances, the Board considers that the listing of the Shares on the Main Board can further increase the profile and recognition of the Company and is expected to be beneficial and complimentary to the development of the Group.

PROPOSED SHARE OPTION SCHEME

In connection with the Introduction, the Board proposes to seek the approval of the Shareholders for the Proposed Share Option Scheme, the provisions of which will comply with the requirements of the Listing Rules. A summary of the principal terms of the Proposed Share Option Scheme is set out in Appendix I to this circular. The Share Option Scheme will be terminated and replaced by the Proposed Share Option Scheme when the Proposed Share Option Scheme shall have been approved and adopted by the Shareholders and shall have become unconditional.

Conditions of the Proposed Share Option Scheme

The adoption of the Proposed Share Option Scheme will be conditional upon:

- (i) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares in issue and any Shares which may fall to be issued pursuant to the exercise of any options which were granted under the Share Option Scheme and which may be granted under the Proposed Share Option Scheme on the Main Board; and
- (ii) the passing of an ordinary resolution by the Shareholders at the Extraordinary General Meeting to approve the termination of the Share Option Scheme and the adoption of the Proposed Share Option Scheme.

PROPOSED ARTICLES OF ASSOCIATION

In connection with the Introduction and to remove references to GEM and to make other immaterial changes in the Articles of Association, the Board proposes to seek the approval of the Shareholders for the adoption of the Proposed Articles of Association at the Extraordinary General Meeting, the provisions of which will comply with the requirements of the Listing Rules. The provisions of the Proposed Articles of Association are in all material respects identical to the Articles of Association. A summary of the principal terms of the Proposed Articles of Association

LETTER FROM THE BOARD

is set out in Appendix II to this circular. The Articles of Association will be substituted by the Proposed Articles of Association when the Proposed Articles of Association shall have been approved and adopted by the Shareholders at the Extraordinary General Meeting.

Conditions of the Proposed Articles of Association

The adoption of the Proposed Articles of Association will be conditional upon:

- (i) the listing of the Shares on the Main Board; and
- (ii) the passing of a special resolution by the Shareholders at the Extraordinary General Meeting to approve and adopt the Proposed Articles of Association in substitution for all the Articles of Association.

EXTRAORDINARY GENERAL MEETING

Set out on pages 37 to 39 of this circular is a notice convening the Extraordinary General Meeting to be held at Taishan Room, 5th Floor, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Admiralty, Hong Kong on Tuesday, 21 May 2002 at 9:45 a.m. (or as soon as practicable immediately after the conclusion or adjournment of the annual general meeting of the Company to be convened at the same place and date at 9:30 a.m.) or any adjournment thereof at which ordinary resolutions will be proposed to consider and, if thought fit, to approve the following:

- (i) the Proposed Withdrawal and the reduction of the notice period for the Proposed Withdrawal; and
- (ii) the termination of the Share Option Scheme and the adoption of the Proposed Share Option Scheme.

At the Extraordinary General Meeting, a special resolution will also be proposed to consider and, if thought fit, to approve the Proposed Articles of Association in substitution of the Articles of Association.

A form of proxy for use at the Extraordinary General Meeting is enclosed. Whether or not you are able to attend the Extraordinary General Meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to Central Registration Hong Kong Limited, the branch share registrar of the Company in Hong Kong (at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong) as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the Extraordinary General Meeting. Completion of the form of proxy will not preclude you from attending and voting at the Extraordinary General Meeting, or any adjourned meeting, should you so wish.

The Board recommends the Shareholders to vote in favour of the ordinary resolutions to approve, amongst other things, the Proposed Withdrawal, the reduction of the notice period for the Proposed Withdrawal and the Proposed Share Option Scheme and the special resolution to approve the Proposed Articles of Association in substitution of the Articles of Association to be proposed at the Extraordinary General Meeting. As at the Latest Practicable Date, Easywin, being the controlling Shareholder (as defined in the GEM Listing Rules) holding approximately 57% of the existing issued share capital of the Company, has undertaken to the Company that it will vote in favour of all the ordinary resolutions and the special resolution to be proposed at the Extraordinary General Meeting.

LETTER FROM THE BOARD

DOCUMENTS AVAILABLE FOR INSPECTION

A copy of the listing document issued in connection with the Introduction is enclosed for your information only. Copy of such document will also be available for inspection at the Extraordinary General Meeting.

Copy of the Proposed Share Option Scheme and the Proposed Articles of Association will be available for inspection at the office of Woo Kwan Lee & Lo at 27th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including the date of the Extraordinary General Meeting.

ADDITIONAL INFORMATION

Your attention is drawn to the other parts of this circular.

By order of the Board
XINAO GAS HOLDINGS LIMITED
Wang Yusuo
Chairman

The following is a summary of the principal terms of the rules of the Proposed Share Option Scheme proposed to be adopted at the Extraordinary General Meeting in replacement of the Share Option Scheme.

(1) Purpose

The purpose of the Proposed Share Option Scheme is for the Company to attract, retain and motivate talented participants to strive for future developments and expansion of the Group. The Proposed Share Option Scheme shall be an incentive to encourage the participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Company attained through their effort and contributions.

(2) Conditions

The Proposed Share Option Scheme is conditional upon (i) the approval of the Shareholders for the termination of the Share Option Scheme; (ii) the approval of the Shareholders for the adoption of the Proposed Share Option Scheme; and (iii) and the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, any Shares to be issued pursuant to the exercise of options which may be granted under the Proposed Share Option Scheme.

(3) Who may join

The Directors may, invite any employee or director of any member of the Group, or any employee, partner or director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the Group, as absolutely determined by the Board, to take up options to subscribe for Shares at a price calculated in accordance with paragraph (7) below.

In determining the basis of eligibility of each participant, the Directors would mainly take into account of the experience of the participant on the Group's business, the length of service of the participant with the Group (if the participant is an employee or a director of any member of the Group), the length of business relationship the participant has established with the Group (if the participant is an employee, a partner or a director of any business consultant, joint venture partner, financial adviser and legal adviser of and to any member of the Group), the amount of support, assistance, guidance, advice, efforts and contributions the participant has exerted and given towards the success of the Group and/or the amount of potential support, assistance, guidance, advice, efforts and contributions the participant is likely to be able to give or make towards the success of the Group in the future.

An option to subscribe Shares may be accepted by a participant within 28 days from the date of the offer of grant of the option and HK\$1.00 is payable by the participant to the Company on acceptance of the option offer.

(4) Duration and termination of the Proposed Share Option Scheme

Unless the Proposed Share Option Scheme is terminated by resolution of the Shareholders in general meeting or by the Board, the Proposed Share Option Scheme shall remain in force for a period of 10 years commencing on its adoption date, after which period no further options will be issued but in all other respects the provisions of the Proposed Share Option Scheme shall remain in full force and effect and options which are granted during the life of the Proposed Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(5) Grant of options

Subject to the terms of the Proposed Share Option Scheme, the Board shall be entitled at any time during the lifetime of the Proposed Share Option Scheme to make an offer to any participant as the Board may in its absolute discretion select to subscribe for such number of Shares as the Board may determine at the subscription price calculated in accordance with paragraph (7) below. Subject to the provisions of the Proposed Share Option Scheme and the Listing Rules, the Board may, when making an offer, impose any conditions, restrictions or limitations in relation thereto as it may at its absolute discretion think fit.

(6) Restriction on grant of option

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 published in the newspapers. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of the Board (as such date is first notified by the Company to the Stock Exchange in accordance with its listing agreement) for the approval of the Company's interim or annual results; and (ii) the deadline for the Company to publish its interim or annual results announcement under its listing agreement, and ending on the date of the results announcement, no option may be granted.

(7) Subscription price of Shares

The subscription price for Shares under the Proposed Share Option Scheme shall be a price determined by the Board and notified to each grantee and will be at least the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of an option, 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 of an option; and (iii) the nominal value of a Share.

(8) Exercise of options

An option is personal to the grantee and may not be transferred or assigned. An option may be exercised in accordance with the terms of the Proposed Share Option Scheme at any time during a period of not more than 10 years to be notified by the Board to each grantee which period of time shall commence on the date of grant of the option and expire on the last day of such period as determined by the Board.

(9) Minimum holding period and performance target

Generally, there is no minimum period for which an option must be held nor is there any performance target that must be achieved before an option can be exercised. However, the Directors may in the offer letter to be given by the Board to any particular participant under the Proposed Share Option Scheme stipulate that the options to be granted to this participant would be subject to such minimum holding period and/or this participant may have to achieve such performance target as may be stipulated in the offer letter before his options can be exercised.

(10) Rights on cease of employment, directorship, office or appointment

In the event of the grantee ceases to be a participant for any reason other than on his death or the termination of his employment, directorship, office or appointment on certain ground(s), the grantee may exercise the option up to his entitlement at the date of cessation (to the extent he is entitled to exercise at the date of cessation but not already exercised) within the period of three months following the date of such cessation, which date shall be the last actual working day with the relevant member(s) of the Group whether salary is paid in lieu of notice or not or the last date of office or appointment as partner or director of any business consultant, joint venture partner, financial/legal adviser to the relevant member(s) of the Group, as the case may be, or such longer period as the Board may determine, failing which the option will lapse.

(11) Rights on death

If a grantee of an option dies before exercising the option in full and none of certain events which would be a ground for termination of his employment, directorship, office or appointment arises, the personal representative(s) of the deceased grantee may exercise the option up to the entitlement of such grantee at the date of his death (to the extent but not already exercised) within a period of 12 months or such longer period as the Board may determine from the date of death, failing which the option will lapse.

(12) Rights on a general offer

If a general offer (including any take-over) 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) with the terms of the offer having been approved in accordance with applicable laws and regulatory requirements becoming or are declared unconditional, the grantee (or the personal representative(s) of the deceased grantee) may by notice in writing to the Company exercise the option (to the extent which has become exercisable on the date of such notice and not already exercised) to its full extent or to the extent specified in such notice at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(13) Rights on a compromise or arrangement

If a compromise or arrangement between the Company and its Shareholders 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 the grantee on the same date as it despatches the notice which is sent to each Shareholder or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the grantee (or the personal representative(s) of the deceased grantee) may forthwith and until the expiry of the period commencing with such date and ending with the earlier of two months thereafter and the date on which such compromise or arrangement is sanctioned by the court exercise any of his options whether in full or in part, 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 except insofar as previously exercised under the Proposed Share Option Scheme. The Company may require the grantee (or the personal representative(s) of the deceased grantee) 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 grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(14) Rights on voluntary winding up of the Company

If a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, the Company shall on the same date as or soon after it despatches such notice to convene the Shareholders' meeting, give notice thereof to all grantees and thereupon, each grantee (or the legal personal representative(s) of the deceased grantee) may by notice in writing to the Company (such notice shall be received by the Company not later than 2 Business Days prior to the proposed general meeting) exercise the option (to the extent which has become exercisable and not already exercised) either to its full extent or to the extent specified in such notice, such notice to be accompanied by a payment 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 relevant Shares to the grantee credited as fully paid.

(15) Maximum number of Shares

- (i) The total number of Shares which may be issued upon exercise of all options to be granted under the Proposed Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 73,700,000 Shares, being 10% of the total number of Shares in issue as at the proposed date of approval of the Proposed Share Option Scheme, unless the Company obtains an approval from its Shareholders pursuant to sub-paragraph (ii) below. Options lapsed in accordance with the terms of the Proposed Share Option Scheme will not be counted for the purpose of calculating such 10% limit.
- (ii) The Company may seek approval by its Shareholders in general meeting for refreshing the 10% limit set out in sub-paragraph (i) above under the Proposed Share Option Scheme such that the total number of Shares which may be issued upon exercise of all options to be granted under the Proposed Share Option Scheme and any other share option schemes of the Company under the limit as refreshed must not exceed 10% of the total number of Shares in issue as at the date of approval to refresh such limit. Options previously granted under the Proposed Share Option Scheme (including those outstanding, cancelled, lapsed in accordance with the Proposed Share Option Scheme or exercised options) will not be counted for the purpose of calculating the limit as refreshed.
- (iii) The Company may seek separate approval by its Shareholders in general meeting for granting options beyond the 10% limit provided the options in excess of the limit are granted only to participants specially identified by the Company before such approval is sought.

Notwithstanding the above, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Proposed Share Option Scheme and any other share options scheme of the Company must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Proposed Share Option Scheme and any other share option scheme of the Company if this will result in the limit being exceeded.

(16) Maximum entitlement to each participant

The total number of Shares issued and to be issued upon exercise of the options granted under the Proposed Share Option Scheme and any other share option scheme of the Company to each participant (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue (the "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 must be subject to the issue of a circular to the Shareholders pursuant to Rule 17.03(4) of the Listing Rules and the Shareholders' approval in general meeting with such participant and his associates (as defined in the Listing Rules) abstaining from voting. The number of Shares subject to the options to be granted and the terms of the options to be granted to such participant shall be fixed before Shareholders' approval and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

(17) Grant of options to connected persons of the Company

- (i) Any grant of options to a participant who is a connected person (as defined in the Listing Rules), such as director, chief executive or substantial shareholder of the Company or their respective associates (as defined in the Listing Rules), must be approved by the independent non-executive Directors (excluding independent non-executive Director who is the grantee).
- (ii) Where the Board proposes to grant any option to a participant who is a substantial Shareholder (as defined in the Listing Rules) or an independent non-executive Director, or any of their respective associates (as defined in the Listing Rules), 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 him in the 12-month period up to and including the date of such grant:
 - (a) representing in aggregate more than 0.1% of the total number of Shares in issue; and
 - (b) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000.

such proposed grant of options must be approved by the Shareholders in general meeting with all connected persons of the Company abstain from voting (except where any connected person may vote against the relevant resolution). In such a case, the Company shall send a circular to its Shareholders containing all those terms as required under the Listing Rules. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

(18) Lapse of an option

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

- (i) the expiry of the option period;

- (ii) the expiry of the periods referred to in paragraph (10), (11) or (12) above;
- (iii) subject to the scheme of arrangement for reconstruction or amalgamation becoming effective, the expiry of the period referred to in paragraph (13) above;
- (iv) the date on which the grantee ceases to be a participant by reason of the termination of his employment, directorship, office or appointment on grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of certain criminal offence;
- (v) the date of the commencement of the winding-up of the Company;
- (vi) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to any option (or enters into any agreement so to do) in breach of the Proposed Share Option Scheme;
or
- (vii) the date on which the Option is cancelled by the Board as provided in paragraph (21) below.

(19) Ranking of Shares

The Shares to be allotted and issued upon the exercise of an option will be subject to the articles of association of the Company for the time being in-force and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of their allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue 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 date of allotment and issue.

Unless the context otherwise requires, references to “Shares” in the Proposed Share Option Scheme include references to shares in the Company of any such nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

(20) Reorganisation of capital structure of the Company

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of a capitalisation issue, rights issue, sub-division or consolidation of Shares or reduction of capital, such corresponding alterations (if any) shall be made to:

- (i) the number of Shares subject to the option so far as unexercised; and/or
- (ii) the subscription price,

as the auditors of the Company shall at the request of the Board, certify in writing (other than any such adjustments made on a capitalisation issue), either generally or as regards any particular grantee, to be in their opinion fair and reasonable and that such alterations shall give a grantee the same proportion of the issued share capital of the Company as that to which he or she is previously entitled, but so that no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. The capacity of the auditors in this paragraph is that of experts and their certification shall be final and binding on the Company and the grantees.

(21) Cancellation of options granted

The Board may at any time at its absolute discretion cancel any option granted but not exercised. Where the Company cancels options and makes an offer of grant of new options to the same option holder, the offer of such new options may only be made, under the Proposed Share Option Scheme with available options (to the extent not yet granted and excluding the cancelled options) within the limit approved by the Shareholders pursuant to the Proposed Share Option Scheme.

(22) Alteration of the Proposed Share Option Scheme

The provisions of the Proposed Share Option Scheme may be altered in any respect by resolution of the Board except that the definitions of “Grantee”, “Option Period”, “Participant” in sub-paragraph 1.1 thereof the provisions of sub-paragraphs 4.1, 5.1, 5.2, 5.3, paragraphs 6, 7, 8, 9, 10, 11 and 14 thereof and all such other matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of the participants without the prior approval of the Shareholders in general meeting.

Any alteration to the terms and conditions of the Proposed Share Option Scheme which are of a material nature or any change to the terms of options granted must be approved by the Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the Proposed Share Option Scheme.

The amended terms of the Proposed 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 Directors or scheme administrators in relation to any alteration to the terms of the Proposed Share Option Scheme must be approved by the Shareholders in general meeting.

(23) Explanation of the terms

The Directors consider that in order to encourage the participants to perform and contribute their best in achieving the goals of the Group and at the same time allow the participants to enjoy the results of the Company attained through their efforts and contributions, it is important that the Group should continue to provide such participants with an additional incentive by offering them an opportunity to obtain an ownership interest in the Company and to reward them for contributing to the long term success of the business of the Group. By offering options to the participants in such flexible terms under the Proposed Share Option Scheme, in particular, the subscription price of the options will be determined on a fair basis, such participants may exercise their options at

anytime within the option period to acquire a monetary gain or ownership interest in the Company which may in turn provide a further incentive to the participants to better serve the Company. Further, by allowing the Company to grant options under the Proposed Share Option Scheme imposing such minimum holding period and/or requiring the participant to achieve such performance target as may be stipulated in the offer letter before his or her options can be exercised, the Company may be in a better position to retain such participants to continue serving the Group whilst at the same time providing these participants further incentive in achieving the goals of the Group.

Accordingly, the Directors propose to recommend to the Shareholders at the Extraordinary General Meeting to approve the adoption of the Proposed Share Option Scheme and simultaneously terminate the Share Option Scheme.

(24) Value of the option granted

Since the Proposed Share Option Scheme is yet to be approved by the Shareholders, the Board has not yet determined the time frame on the granting of the options thereunder and the number of Shares for which any grantee may subscribe upon exercise of an option. Accordingly, the Board considers that it is premature and inappropriate to state the value of the options for the time being in this circular.

(25) Miscellaneous

The Company confirms that none of the Directors will be trustees of the Proposed Share Options Scheme and accordingly, none of the Directors will have any direct or indirect interest in such trustees.

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

In connection with the Introduction and to remove references to GEM and to make other immaterial changes in the Articles of Association, the Board proposes to seek the approval of the Shareholders for the adoption of the Proposed Articles of Association at the Extraordinary General Meeting, the provisions of which will comply with the requirements of the Listing Rules. The provisions of the Proposed Articles of Association are in all material respects identical to the Articles of Association. In particular, the following principal changes are proposed to be made:

- (i) the definition of the “Exchange” in the Proposed Articles of Association shall mean “The Stock Exchange of Hong Kong Limited” instead of “the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited” as in the Articles of Association; and
- (ii) the definition of the “Listing Rules” shall mean “the Rules Governing the Listing of Securities on the Exchange as amended from time to time” instead of “the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Exchange as amended from time to time” as in the Articles of Association.

The following is a summary of the principal terms of the Proposed Articles of Association proposed to be adopted by the Shareholders in the Extraordinary General Meeting in substitution of the Articles of Association.

THE PROPOSED ARTICLES OF ASSOCIATION

The Proposed Articles of Association are proposed to be adopted by the Company at the Extraordinary General Meeting and include provisions to the following effect:

A. Classes of Shares

The share capital of the Company consists of ordinary shares.

B. Directors

(a) Power to allot and issue Shares

Subject to the provisions of the Companies Law and the Memorandum and the Proposed Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Proposed Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing Shares or attaching to any class of Shares, any Share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any Shareholders or attaching to any class of Shares, any Share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

(b) Power to dispose of the assets of the Company or any subsidiary

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Proposed Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Proposed Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Proposed Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Proposed Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

(c) Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

(d) Loans to Directors

There are provisions in the Proposed Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(e) Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

(f) Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

meeting of the Board at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which he has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

- (i) the giving to such Director of any security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (ii) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any proposal concerning an offer of shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any proposal concerning any other company in which the Director is interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director is beneficially interested in shares of that company, provided that, he, together with any of his associates, is not beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest is derived) or of the voting rights;
- (v) any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:
 - (aa) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which he may benefit;
 - (bb) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors and employees of the Company or any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

- (vi) any contract or arrangement in which the Director is interested in the same manner as other holders of Shares or debentures or other securities of the Company by virtue only of his interest in Shares or debentures or other securities of the Company.

(g) *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

(h) *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

The Company may by special resolution remove any Director and may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election but shall not be taken into account in determining the Directors who are to retire by rotation at such meeting. No person other than a retiring Director shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, not less than seven and not more than 28 clear days before the day appointed for the meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (i) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;
- (ii) if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;
- (iii) if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (iv) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (v) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Proposed Articles of Association;
- (vi) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (vii) if he shall be removed from office by a special resolution of the members of the Company under the Proposed Articles of Association.

At every annual general meeting of the Company one-third of the Directors (other than the managing Director or joint managing Director) for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not exceeding,

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

one-third, shall retire from office by rotation. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

(i) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

(j) *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

C. Alteration to constitutional documents

No alteration or amendment to the Memorandum or the Proposed Articles of Association may be made except by special resolution.

D. Variation of rights of existing Shares or classes of shares

If at any time the share capital of the Company is divided into different classes of Shares, all or any of the rights attached to any class of Shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate meeting all the provisions of the Proposed Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy) at the date of the relevant meeting not less than one-third in nominal value of the issued shares of that class, and that any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

E. Alteration of Capital

The Company in general meeting may, from time to time, whether or not all the Shares for the time being authorised shall have been issued and whether or not all the Shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

The Company may from time to time by ordinary resolution:

- (i) consolidate and divide all or any of its share capital into shares of larger amount than its existing Shares. On any consolidation of fully paid Shares and division into shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of Shares to be consolidated determine which particular Shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (ii) cancel any Shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the Shares so cancelled subject to the provisions of the Companies Law; and
- (iii) sub-divide its Shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any Shares is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital, any capital redemption reserve or any share premium account in any manner authorised and subject to any conditions prescribed by the Companies Law.

F. Special resolution – majority required

A "special resolution" is defined in the Proposed Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

In contrast, an “ordinary resolution” is defined in the Proposed Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Proposed Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

G. Voting rights (generally, on a poll and right to demand a poll)

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of Shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each Shares registered in his name in the register of members of the Company.

In the case of joint registered holders of any share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

Save as expressly provided in the Proposed Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his Shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be reckoned in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded. A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five members of the Company present in person or by proxy and entitled to vote; or
- (c) any member or members of the Company present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members of the Company having the right to attend and vote at the meeting; or

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

- (d) any member or members of the Company present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy.

If a recognised clearing house (or its nominee) is a member of the Company it may, by resolution of its directors or other governing body or by power of attorney, authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

H. Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

I. Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Printed copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

before the date of the meeting, be sent to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send printed copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any Shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

J. Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Proposed Articles of Association or the terms of issue of the Shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the Shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (a) the declaration and sanctioning of dividends;
- (b) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (c) the election of Directors in place of those retiring;
- (d) the appointment of auditors;

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

- (e) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (f) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and
- (g) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

K. Transfer of Shares

Transfers of shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any Shares which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any Shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the Shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of Share;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four;
- (e) the Shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

If the Directors refuse to register a transfer of any Share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

L. Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Proposed Articles of Association to purchase its own Shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

M. Power of any subsidiary of the Company to own Shares

There are no provisions in the Proposed Articles of Association relating to the ownership of Shares by a subsidiary.

N. Dividends and other methods of distributions

Subject to the Companies Law and Proposed Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any Shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any Shares not fully paid throughout the period in respect of which the dividend is paid be apportioned and paid pro rata according to the amounts paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a Share in advance of calls shall be treated as paid up on the Share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a Share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up on the basis that the Shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the Shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of Shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other such payable in cash to a holder of Shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such Shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

O. Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

P. Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their Shares (whether on account of the nominal amount of the Shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his Shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the Shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a Share shall be jointly and severally liable to pay all calls and instalments due in respect of such share or other moneys due in respect thereof.

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

If a sum called in respect of a Share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15% per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any Share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such Shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the Shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any Share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited Shares and not actually paid before the forfeiture. A forfeited Share shall be deemed to be the property of the Company and may be sold, re-allotted, or otherwise disposed of.

A person whose Shares have been forfeited shall cease to be a member of the Company in respect of the forfeited Shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the Shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15% per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the Shares forfeited, at the date of forfeiture.

Q. Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the Shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of Shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

R. Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Proposed Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of Shares of the Company is described in sub-paragraph D above.

S. Rights of minorities in relation to fraud or oppression

There are no provisions in the Proposed Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

T. Procedure on liquidation

If the Company shall be wound up and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the Shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of Shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

APPENDIX II SUMMARY OF THE PRINCIPAL TERMS OF THE PROPOSED ARTICLES OF ASSOCIATION
--

U. Untraceable members

The Company shall be entitled to sell any Shares of a member of the Company or the Shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such Shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the Shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers, giving notice of its intention to sell such Shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

NOTICE OF EXTRAORDINARY GENERAL MEETING



XINAO GAS HOLDINGS LIMITED

新奧燃氣控股有限公司*

(incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Xinao Gas Holdings Limited (the “Company”) will be held at Taishan Room, 5th Floor, Island Shangri-La Hong Kong, Pacific Place, Supreme Court Road, Admiralty, Hong Kong on Tuesday, 21 May 2002 at 9:45 a.m. (or as soon as practicable immediately after the conclusion or adjournment of the annual general meeting of the Company to be convened at the same place and date at 9:30 a.m.) or any adjournment thereof for the purpose of considering and, if thought fit, passing the following resolutions with or without modifications as ordinary resolutions and/or special resolution (as the case may be):

ORDINARY RESOLUTIONS

1. **THAT:**

- (A) “Conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting approval of the listing of, and permission to deal in, the shares of HK\$0.10 each in the share capital of the Company (“Shares”) in issue and any Shares which may fall to be issued pursuant to the exercise of options granted under the Existing Scheme (as defined in Ordinary Resolution No. 2(A) set out in the notice convening this meeting) and the Scheme (as defined in Ordinary Resolution No. 2(B) set out in the notice convening this meeting) on the Main Board of the Stock Exchange and the publication of a notice in connection with the proposed withdrawal of the listing of the Shares on the Growth Enterprise Market of the Stock Exchange (“GEM”) (the “Proposal Withdrawal”) not less than such period as the shareholders of the Company shall approve under Ordinary Resolution No. 1(B) set out in the notice convening this meeting before the day on which the Proposed Withdrawal is effective, the listing of the Shares on the GEM shall cease with effect from such date and time as the directors of the Company may designate and THAT any one director of the Company or the company secretary of the Company be and is hereby authorised generally to do all matters for and on behalf of the Company as he may deem necessary, desirable or expedient to effect and implement the foregoing.”
- (B) “The notice period required under Rule 9.19(3) of the Rules Governing the Listing of Securities on GEM operated by the Stock Exchange in connection with the Proposed Withdrawal be reduced to a minimum of five clear days on which the Stock Exchange is open for the business of dealings in securities from the date on which the shareholders of the Company shall have approved the Proposed Withdrawal.”

* For identification only

NOTICE OF EXTRAORDINARY GENERAL MEETING

2. **THAT:**

- (A) “The existing share option scheme of the Company for the employees and executive directors of the Company and its subsidiaries adopted on 24 April 2001 (the “Existing Scheme”) be and is hereby terminated with immediate effect;
- (B) “Conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting approval of the listing of, and permission to deal in, the shares of HK\$0.10 each in the share capital of the Company (“Shares”) in issue and any Shares which may fall to be issued pursuant to the exercise of the options granted under the Existing Scheme (as defined in Ordinary Resolution No. 2(A) set out in the notice convening this meeting) and the share option scheme (the “Scheme”) (a copy of which has been produced to the meeting and marked “A” and initialled by the chairman of the meeting for the purpose of identification) on the Main Board of the Stock Exchange, the Scheme be and is hereby approved and adopted and that the directors of the Company be and are hereby authorised, at their absolute discretion, to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of subscription rights under any options which may be granted under the Scheme and to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the Scheme and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same.”

SPECIAL RESOLUTION

3. “**THAT** conditional upon the listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited, the articles of association contained in the document marked “B” produced to the meeting and initialled by the chairman of the meeting for the purpose of identification, be approved and adopted as the new articles of association of the Company in substitution for and to the exclusion of all the existing articles of association of the Company.”

By order of the Board
XINAO GAS HOLDINGS LIMITED
CHENG Chak Ngok
Company Secretary

Hong Kong, 23 April 2002

Principal office in Hong Kong:
Room 4202
Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the articles of association of the Company, vote in his stead. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy must be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, at Central Registration Hong Kong Limited, the branch share registrar of the Company in Hong Kong, at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting.
3. In the case of joint registered holders of any Shares, any one of them may vote at the meeting, either personally or by proxy, in respect of such Shares as if he was solely entitled thereto; but if more than one of such joint registered holders be present at the meeting, either personally or by proxy, that one of them so present whose name stands first on the register of members in respect of such Shares shall be accepted to the exclusion of the votes of the other joint registered holders.