
IMPORTANT

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant, or other professional adviser.

If you have sold or transferred all your shares in Angels Technology Company Limited (the “Company”), you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

ANGELS

Angels Technology Company Limited
英君技術有限公司

(Incorporated in the Cayman Islands with limited liability)

PROPOSALS FOR
(I) ADOPTION OF NEW SHARE OPTION SCHEME AND
TERMINATION OF EXISTING SHARE OPTION SCHEME
AND
(II) GENERAL MANDATES TO ISSUE SHARES
AND REPURCHASE SHARES

This circular, for which the Directors (the “Directors”) of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market on The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (1) the information contained in this circular is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this circular misleading; and (3) all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This circular will remain on the GEM website at www.hkgem.com on the “Latest Company Announcements” page of 7 days from the date of its posting.

CHARACTERISTICS OF GEM

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

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

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

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DEFINITIONS

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

“associates”	shall have the meaning set out in, and be interpreted in accordance with, the GEM Listing Rules;
“Annual General Meeting”	the annual general meeting of the Company for the year ended 31 December 2002 to be held at Room 2712, 27th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong on 25 April 2003, at 3:00 p.m.;
“AGM Notice”	the notice dated 31 March 2003 convening the Annual General Meeting;
“Articles”	the articles of association of the Company;
“Board”	the board of Directors;
“Companies Law”	the Companies Law (Law 3 of 1961, as consolidated and revised) of the Cayman Islands;
“Company”	Angels Technology Company Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on GEM;
“Directors”	directors of the Company;
“Existing Share Option Scheme”	the existing employee share option scheme of the Company which was adopted on 16 August 2001 and will expire on 16 August 2010;
“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 from time to time;
“HK\$” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong;
“Invested Entity”	any entity in which the Company or any Subsidiary holds any equity interest;
“Latest Practicable Date”	25 March 2003, being the latest practicable date prior to the printing of this circular;

DEFINITIONS

“Mitac”	Mitac International Holdings Limited;
“New Share Option Scheme”	the share option scheme of the Company as referred to under the heading “New Share Option Scheme” in the Letter from the Board and Appendix I to this circular;
“Ordinary Resolution(s)”	the proposed ordinary resolution(s) 4A, 4B, 4C and 4D as referred to in the AGM Notice;
“Participant(s)”	(a) person(s) eligible to be granted share options under the New Share Option Scheme;
“Sebastian”	Sebastian International Holdings Limited;
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company;
“Shareholder(s)”	(a) holder(s) of Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subsidiary”	a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) (as amended from time to time) or the Companies Law) (as amended) of the Company whether that company is incorporated in Hong Kong, the Cayman Islands, the British Virgin Islands or elsewhere;
“Substantial Shareholder”	shall have the meaning set out in, and be interpreted in accordance with, the GEM Listing Rules; and
“Takeover Code”	the Hong Kong Code on Takeovers and Mergers.

ANGELS

Angels Technology Company Limited
英君技術有限公司

(Incorporated in the Cayman Islands with limited liability)

Executive Directors:

Mr. Yan, Daniel X.D. (Chairman)
Mr. Lau, Andrew Kim
Mr. Zhu Quan
Ms. Shek Ying, Christine

Registered Office:

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

Independent Non-executive Directors:

Mr. Yang Xiaoping
Mr. Zhao Ming

Principal Place of Business:

Room 2712, 27th Floor
West Tower, Shun Tak Centre
168-200 Connaught Road Central
Hong Kong

31 March 2003

To the Shareholders

Dear Sir and Madam,

PROPOSALS FOR
(I) ADOPTION OF NEW SHARE OPTION SCHEME AND
TERMINATION OF EXISTING SHARE OPTION SCHEME
AND
(II) GENERAL MANDATES TO ISSUE SHARES
AND REPURCHASE SHARES

INTRODUCTION

In view of the amendments to Chapter 23 of the GEM Listing Rules regarding the share option schemes of listed companies, the Directors propose to recommend to the Shareholders at the Annual General Meeting (i) to adopt the New Share Option Scheme and to terminate the Existing Share Option Scheme (without prejudice to the rights and benefits of and attached to all those options granted under the Existing Share Option Scheme which are outstanding); and (ii) to give general mandates to the Directors to issue and allot shares and to exercise the power of the Company to repurchase its own shares in accordance with the GEM Listing Rules. The adoption of the New Share Option Scheme, the termination of the Existing Share Option Scheme and the general mandates described herein are subject to the approval of the Shareholders.

LETTER FROM THE BOARD

The purpose of this circular is to provide all Shareholders with details in respect of (i) the New Share Option Scheme and (ii) the proposed renewal of the general mandates to be granted to the Directors for the issue of shares and the repurchase by the Company of its own shares and to enable you to make an informed decision in relation to the proposed Ordinary Resolutions.

NEW SHARE OPTION SCHEME

Reasons for adopting the New Share Option Scheme

The purpose of the New Share Option Scheme is to provide incentives or rewards to Participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any Invested Entity. The New Share Option Scheme will be in line with the existing provisions of the GEM Listing Rules regarding share option schemes of listed companies.

The rules of the New Share Option Scheme provide that the Board is empowered with the authority to determine the terms and conditions of any option based in each case on relevant factors as the Board considers appropriate. The Board believes that the authority given to it under the New Share Option Scheme to specify any minimum holding period and/or performance targets as conditions in any option granted and the requirement for a minimum subscription price as well as the selection criteria prescribed by the rules of the New Share Option Scheme will serve to protect the value of the Company as well as to achieve the purpose of the New Share Option Scheme.

A summary of the principal terms of the New Share Option Scheme is set out in Appendix I to this circular. The New Share Option Scheme is available for inspection at the principal office of the Company in Hong Kong at Room 2712, 27th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong for a period of 14 days before the date of the Annual General Meeting and at the Annual General Meeting.

Conditions

The New Share Option Scheme is conditional upon:

- (i) the passing of the ordinary resolution at the Annual General Meeting approving the adoption of the New Share Option Scheme; and
- (ii) the Stock Exchange granting approval of the New Share Option Scheme, the grant of options under the New Share Option Scheme and the listing of, and permission to deal in any new Shares which may fall to be allotted and issued upon the exercise of the Options that may be granted under the New Share Option Scheme.

Application will be made to the Stock Exchange in respect of the approvals above.

As at the Latest Practicable Date, the total issued share capital of the Company comprised 192,000,000 Shares. Assuming that there is no change in the issued share capital between the period from the Latest Practicable Date to the date of the adoption of New Share Option Scheme, the number of

LETTER FROM THE BOARD

Shares issuable pursuant to the New Share Option Scheme on the date of its adoption will be 19,200,000 Shares being 10% of the total issued share capital of the Company. The Board proposes to terminate the Existing Share Option Scheme upon the adoption of the New Share Option Scheme subject to approval of the Shareholders.

Valuation of the options

The Directors consider that it is not appropriate to state the value of all options that can be granted pursuant to the New Share Option Scheme as if they had been granted on the Latest Practicable Date as a number of variables which are crucial for the calculation of the option value have not been determined. Such variables include the exercise price, exercise period, any lock-up period, any performance targets set and other relevant variables. The Directors believe that any calculation of the value of the options as at the Latest Practicable Date based on a great number of speculative assumptions would not be meaningful and would be misleading to the Shareholders.

EXISTING SHARE OPTION SCHEME

Since the listing of the Company on GEM to the Latest Practicable Date, options were granted by the Company to subscribe for a total of 8,288,000 Shares, representing approximately 4.32% of the issued share capital of the Company, at an exercise price of HK\$1.28 for each Share and none of these options have yet been exercised. These options vest over a period of two years commencing on the first anniversary of the respective date of grant and can be exercised thereafter until 10 years after the respective date of grant. The Board confirms that prior to the Annual General Meeting, it will not grant any further option under the Existing Share Option Scheme. Besides the Existing Share Option Scheme, there is no other subsisting share option scheme of the Company as at the Latest Practicable Date.

GENERAL MANDATE TO ISSUE SHARES

At the Annual General Meeting, an ordinary resolution will be proposed that the Directors be given a general mandate to allot, issue and deal with shares up to a limit equal to 20% of the issued share capital of the Company as at the date of passing of such resolution. Another ordinary resolution will be proposed to increase limit of this 20% by the amount of any shares of the Company repurchased by the Company up to a maximum of 10% of the issued share capital of the Company at the date of passing of the relevant resolution.

GENERAL MANDATE TO REPURCHASE SHARES

At the Annual General Meeting, an ordinary resolution will also be proposed to grant to the Directors a general mandate to repurchase its own Shares on GEM or on any other stock exchange on which the Shares may be listed. Under such mandate, the number of Shares that the Company may repurchase shall not exceed 10% of the share capital of the Company in issue on the date of passing the resolution.

LETTER FROM THE BOARD

Explanatory statement

Appendix II to this circular contains the explanatory statement in compliance with the GEM Listing Rules to give all the information reasonably necessary to enable the Shareholders to make an informed decision on whether to vote for or against the resolution to approve the granting of a mandate to the Directors to exercise the powers of the Company to repurchase its own shares.

General Information

The notice of the Annual General Meeting is set out in the annual report which has been despatched to the Shareholders with this circular.

A form of proxy for the Annual General Meeting is enclosed with the annual report. Whether or not you are able to attend the Annual General Meeting in person, please complete and return the form of proxy in accordance with the instructions printed thereon to the principal office of the Company at Room 2712, 27th Floor, West Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the Annual General Meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting at the Annual General Meeting or any adjourned meeting (as the case may be) should you so wish.

RECOMMENDATION

The Directors consider that (i) the adoption of the New Share Option Scheme and the termination of the Existing Share Option Scheme; and (ii) the granting of the general mandates to issue Shares and repurchase Shares are in the best interests of the Company and the Shareholders and so recommend all Shareholders to vote in favour of the Ordinary Resolutions to be proposed at the forthcoming Annual General Meeting.

Yours faithfully,
Yan, Daniel X.D.
Chairman

The following is a summary of the principal terms of the New Share Option Scheme:

1. Purpose of the New Share Option Scheme

The purpose of the New Share Option Scheme is to provide incentives or rewards to Participants thereunder for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group and any Invested Entity.

2. Who may join

The Directors may, at their discretion, invite any Participant being any executive director, non-executive director or employee or proposed employee (whether full time or part time), shareholder, supplier, customer, consultant, adviser, other service provider, joint venture partner, business or strategic alliance partner, in each case, of the Company, any Subsidiary or any Invested Entity or any discretionary trust whose discretionary objects may be any executive director, non-executive director or employee or proposed employee (whether full time or part time), shareholder, supplier, customer, consultant, adviser, other service provider, joint venture partner, business or strategic alliance partner, in each case, of the Company, any Subsidiary or any Invested Entity to take up options to subscribe for Shares in the Company.

3. Maximum number of shares

(a) 30% Limit

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 New Share Option Scheme and any other share option schemes of the Company (including the Existing Share Option Scheme) must not exceed 30% of the Shares in issue from time to time (the "Scheme Limit").

(b) 10% Limit

In addition to the Scheme Limit, and subject to the following, the total number of Shares which may be issued upon exercise of all options granted under the New Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the Shares in issue as at the date of approval of the Scheme (excluding any options which have lapsed) (the "Scheme Mandate Limit").

The Company may, from time to time, refresh the Scheme Mandate Limit by issuing a circular to the Shareholders and obtaining the approval of the Shareholders in general meeting. Once refreshed, the total number of securities which may be issued upon exercise of all options to be granted under the New Share Option Scheme and all other share option schemes of the Company under the limit, as refreshed, must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the New Share Option Scheme and/or any other share option schemes of the Company, including without limitation any options which are outstanding, cancelled, lapsed or exercised, will not be counted for the purpose of calculating the refreshed 10% limit.

The Company may seek separate approval by the Shareholders in general meeting for granting options beyond the refreshed Scheme Mandate Limit provided that the options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. A circular containing a generic description of the specified Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Participants with an explanation as to how the terms of the options serve such purpose and other information required under the GEM Listing Rules must be sent to the Shareholders.

4. Maximum entitlement of each Participant

Unless approved by shareholders of the Company, the total number of securities issued and to be issued upon exercise of the options granted to each Participant (including both exercised and outstanding

options) in any 12 month period must not exceed 1% of the Shares in issue. Where any further grant of options to a Participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12 month period up to and including the date of such further grant representing in aggregate over 1% of the relevant class of securities in issue, such further grant must be separately approved by the Shareholders in general meeting with such Participant and his associates abstaining from voting. The Company must send a circular to the Shareholders and the circular must disclose the identity of the Participant, the number and terms of the options to be granted (and options previously granted to such Participant).

5. No prescribed performance targets

The Directors may or may not set performance targets that must be achieved before the options can be exercised, but no such performance targets are presently prescribed under the New Share Option Scheme.

6. Price of Shares

The exercise price must be at least the highest of: (a) the nominal value of a Share on the date of grant; (b) the closing price of a Share as stated in the daily quotation sheet of the Stock Exchange on the date of grant; and (c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant.

7. Amount payable upon acceptance of the option

Acceptance of an offer of the grant of an option shall be by the delivery to and receipt by the Company at its principal place of business in Hong Kong of the form of acceptance sent to the Participant duly completed and signed by the Participant together with a remittance of HK\$10, by way of consideration for the grant thereof, in an envelope marked for the attention of the secretary of the Company.

8. Period of the New Share Option Scheme

The New Share Option Scheme shall commence on the date it becomes unconditional and shall continue in force until the tenth anniversary of such date.

9. Rights are personal to the option holder

An option shall be personal to the option holder and shall not be assignable and no option holder shall in any way sell, transfer, change, mortgage, encumber or create any interest in favour of any third party over in relation to any option.

10. Time of exercise of option

An option may be exercised in accordance with the terms of the New Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee of the option which period may commence on a day after the date upon which the option is granted but shall and in any event be not later than ten years from the date of grant. Unless otherwise determined by the Directors at their sole discretion, there is no requirement of a minimum period for which an option must be held.

11. Grant of an option to connected persons

Any grant of options to a director, chief executive, management shareholder (as defined in the GEM Listing Rules) or Substantial Shareholder or any of their respective associates shall be approved by the independent non-executive Directors (excluding an independent non-executive Director who is the grantee of the options). Where any option is proposed to be granted to a Substantial Shareholder or an independent non-executive Director or any of their respective associates and such grant would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted

(including options exercised, cancelled and outstanding) to such person in the past 12 month period up to and including the proposed date of grant of the option:

- (i) representing in aggregate over 0.1% of the Shares of the Company in issue for the time being; and
- (ii) having an aggregate value, based on the closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange at the date of each grant, in excess of HK\$5 million,

then the proposed grant must be subject to the approval of Shareholders in general meeting. All connected persons of the Company must abstain from voting at such general meeting (except where any connected person intends to vote against the proposed grant and provided that his intention to do so has been stated in the circular). Any vote taken at the meeting to approve the grant of such options must be taken on poll. The Company shall issue a circular to the Shareholders explaining the proposed grant, disclosing the number and terms (including the exercise price) of the options to be granted to each grantee and containing a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a grantee) on whether or not to vote in favour of the proposed grant and including all the information required under the GEM Listing Rules.

12. Restrictions on the time of grant of options

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for the approval of the Company's results for any year, half-year or quarter-year period; and (b) the deadline for the Company to publish announcement of its results for any year, half-year or quarter year period under the GEM Listing Rules and ending on the date of the results announcement.

13. Rights on ceasing to be a Participant

If an option holder who is a director of the Company or any Subsidiary or Invested Entity, or an executive or an employee of the Company or any Subsidiary or Invested Entity ceases to be so engaged:

- (i) by reason of ill-health, injury, disability or death (in each case evidenced to the satisfaction of the Directors) or by reason of his employing company ceasing to be a member of the Group or an Invested Entity or by termination of his employment by his employing company on notice in accordance with the provisions of his contract of employment or with pay in lieu of such notice or on retirement in accordance with his contract of employment or otherwise by agreement with his employing company, then he or (as the case may be) his personal representatives may, notwithstanding any restriction on exercise pursuant to this paragraph 13(i), exercise all or any of his options (to the extent not already exercised) in whole or in part at any time within a period ending on the earlier of (a) 3 months after the date he ceases to be so engaged and (b) the date on which the relevant option would but for the operation of this paragraph 13(i) have ceased to be exercisable, and any option or options not so exercised shall lapse and determine at the end of such period; or
- (ii) by reason of his resignation, whether or not in accordance with the provisions of his contract of employment, then all his options (whether or not exercised) shall lapse and determine on the date upon which such resignation is received by his employing company; or
- (iii) by reason of his dismissal without notice (or payment in lieu) for misconduct or other grounds entitling the Company, Subsidiary or Invested Entity (as the case may be) to summarily terminate his employment, then all his options (whether or not exercised) shall lapse and determine immediately without compensation at the time of notification by the Company, Subsidiary or Invested Entity of such termination; or

- (iv) for any reason other than as described in paragraphs (i), (ii) and (iii) above, then all his options shall lapse and determine on the date he so ceases (to the extent not already exercised);

provided that in any such case the Directors may specify such other conditions or limitations as they may in their absolute discretion think fit in respect of the exercise by the option holder concerned of his options in substitution for those specified in this paragraph 13.

14. Effect on takeover

- (A) If, in consequence of any general offer made to the holders of Shares (being an offer made in the first instance on a condition such that, if it is satisfied, the offeror will have control of the Company) or otherwise, any person shall have obtained control of the Company, the Directors shall as soon as practicable thereafter notify every option holder accordingly and the Directors shall within 14 days thereafter notify every option holder as to which of the following provisions shall apply (and the Directors may determine that more than one of the following provisions may be selected to apply to different options, provided that all option holders are treated equally):
- (i) each option holder (or where permitted under paragraph 13(i) his personal representatives) shall be entitled at any time to exercise all or any of his options in whole or in part; or
 - (ii) the Directors may grant a cash bonus award to the option holders for an amount equal to the subscription price in consideration of such option holders surrendering the relevant options for cancellation; or
 - (iii) the Directors may grant a cash sum equal to the difference between (a) the subscription price and (b) the greater of the offer price for the Shares or the fair market value of the Shares, as determined by the Directors, in consideration of such option holders surrendering the relevant options for cancellation; or
 - (iv) the Directors may make such any other adjustments or amendments to the outstanding options as they deem fit; or
 - (v) the Directors may determine that any or all outstanding options will not vest or become exercisable immediately in the event of a general offer or exchange offer to acquire the Shares if provision is made to substitute new options that are, in the Directors' opinion, equivalent to the outstanding options.
- (B) If, in consequence of any tender offer as described in paragraph 14(A), the Directors determine that all or part of the options may be exercised as provided in paragraph 14(A)(i), and if any person shall have obtained control of the Company, then the Directors shall as soon as practicable thereafter notify every option holder (save for any who have accepted alternative arrangements, if any, offered to them pursuant to paragraphs 14(A)(ii) to (v)) accordingly and each option holder (or where permitted under paragraph 13(i) his personal representatives) shall be entitled at any time within the period of one month after such control has been obtained to exercise all or any of his options in whole or in part, and to the extent that it has not been so exercised, any option shall upon the expiry of such period lapse and determine, provided that if, during such period, such person becomes entitled to exercise rights of compulsory acquisition of Shares pursuant to the Companies Law and gives notice in writing to any holders of Shares that he intends to exercise such rights, options shall be and will remain exercisable until one month from the date of such notice and, to the extent that they have not been exercised, shall thereupon lapse and determine.

15. Effect on winding-up

If notice is duly given of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company, each option holder (or where permitted under paragraph 13(i) his

personal representatives) shall be entitled to exercise all or any of his options in whole or in part (but so that any exercise hereunder shall only be valid if, at the time of such resolution being passed, the option shall not have lapsed and determined in accordance with the foregoing provisions of the New Share Option Scheme) at any time thereafter until the resolution is duly passed or defeated or the meeting is concluded or adjourned sine die, whichever shall first occur. If such resolution is duly passed all options shall, to the extent that they have not been exercised, thereupon lapse and determine.

16. Effect on reconstruction

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all option holders on the same date as it despatches to each member or creditor of the Company a notice summoning the meeting to consider such a compromise or arrangement, and thereupon each option holder (or his personal representatives) shall be entitled to exercise all or any of his options in whole or in any part at any time prior to 12 noon on the day immediately preceding the date of the meeting directed to be convened by the Court for the purposes of considering such compromise or arrangement. With effect from the date of such meeting, the rights of all option holders to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall to the extent that they have not been exercised thereupon lapse and determine. If for any reason such compromise or arrangement is not approved by the Court (whether upon the terms presented to the Court or upon any other terms as may be approved by such Court) the rights of option holders to exercise their respective options shall with effect from the date of the making of the order by the Court be restored in full and shall thereupon become exercisable (but subject to the other terms of the New Share Option Scheme) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any option holder as a result of the aforesaid suspension provided that, in any particular case, the Directors may in their absolute discretion, and whether generally or specifically, determine that all or any options which would otherwise lapse shall not do so, and shall be exercisable in full or in part. If the Directors exercise such discretion, they may impose such conditions, if any, as they consider appropriate regarding the exercise of such options.

17. Ranking of Shares

A share issued upon exercise of an option shall not carry voting rights until the registration of the option holder (or any other person) as the holder hereof. If under the terms of a resolution passed or an announcement made by the Company prior to the date of allotment of Shares upon the exercise of an option, a dividend is to be or is proposed to be paid to holders of Shares on the register on a date subsequent to such date of allotment, the Shares to be issued upon such exercise will not rank for such dividend. Subject as aforesaid, Shares allotted upon the exercise of an option shall rank *pari passu* in all respects with the Shares in issue on the date of such allotment and will be subject to all the provisions of the Articles for the time being in force.

18. Effect of alteration to capital

In the event of any reduction of capital, sub-division or consolidation of shares capital of the Company, any capitalisation issue or rights issue by the Company, the number or nominal amount of Shares comprised in each option (so far as unexercised) and /or the option price thereunder and/or the number of Shares issued or issuable or which may be issued under the New Share Option Scheme may be adjusted in such manner as the Directors may deem appropriate subject to the receipt by them of a statement in writing from the auditors of the Company (acting as experts and not as arbitrators) that in their opinion the adjustments proposed satisfy the requirements set out in this paragraph, provided always (i) that no increase shall be made in the aggregate subscription price payable on the exercise of any option in respect of the total Shares then comprised therein (ii) that no adjustment shall be made if the same would result in a Participant not being given the same rights over the same proportion (or as near thereto as is reasonably practicable) of the issued share capital of the Company as that to which he was previously entitled, and (iii) that no Shares shall be issued at less than its nominal value. However,

the issue of any Shares as a result of the exercise of subscription rights under any warrants issued by the Company prior to the date upon which the New Share Option Scheme comes into effect or an issue by the Company of Shares or by the Company of securities wholly or partly convertible into or rights to acquire Shares, in any such case in consideration or part consideration for the acquisition of any other securities, assets or business shall not be regarded as circumstances requiring adjustment.

19. Cancellation of option granted

The Directors may from time to time in their absolute discretion cancel any or all options granted but not exercised. Such cancellation must be approved by the Shareholders in general meeting. Any vote taken at the meeting to approve such cancellation must be taken by poll. The relevant option holders whose options have been cancelled shall not be entitled to any compensation or any consequential loss as a result of such cancellation.

Where the Company cancels options and issues new options to the same option holder, the issue of such new options may only be made under the New Share Option Scheme with available unissued options (excluding the cancelled options) within the limit approved by Shareholders as mentioned in note (1) to Rule 23.03(3) of the GEM Listing Rules.

20. Lapse of options

An option shall automatically lapse and determine upon occurrence of the events stated in paragraphs 13, 14, 15 and 16 above, subject to the terms set out therein.

21. Termination and alteration of New Share Option Scheme

The Company by resolution in general meeting or the Directors may at any time terminate the operation of the New Share Option Scheme and in such event no further offer will be made to grant options but in all other respects the provisions of the New Share Option Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The Directors may from time to time in their absolute discretion waive or amend the provisions of the New Share Option Scheme without shareholders' approval as they deem desirable provided that:

- (i) such amendments must not result in the non-compliance of the GEM Listing Rules for the time being;
- (ii) the Directors may not amend any of the provisions of the New Share Option Scheme so as to alter to the advantage of Participants any of the provisions relating to the matters set out in Rule 23.03 of the GEM Listing Rules except with the prior sanction of the Shareholders in general meeting; and
- (iii) any alterations to the terms and conditions of the New Share Option Scheme, which are of a material nature or any change to the terms of options granted, shall be subject to the approval of the Shareholders, save where the alterations take effect automatically under the existing terms of the New Share Option Scheme.

Any change in the terms of the New Share Option Scheme which changes the power or authority of the Board to alter the terms of such New Share Option Scheme must be approved by Shareholders in general meeting.

This is an explanatory statement given to all Shareholders relating to the resolution No. 4B to be proposed at the Annual General Meeting authorising the repurchase mandate.

This explanatory statement contains all the information required pursuant to Rule 13.08 of the GEM Listing Rules which is set out as follows:

1. Exercise of the repurchase mandate

The Company's authority is restricted to purchases made on the Stock Exchange in accordance with the Listing Rules. For your information, on the Latest Practicable Date, there were in issue an aggregate of 192,000,000 Shares. Accordingly, exercise in full of the repurchase mandate, on the basis that no further Shares are issued or repurchased prior to the date of the Annual General Meeting, result in up to 19,200,000 Shares being repurchased by the Company. Furthermore, the general mandate covers purchases made only during the period ending on the earliest of (a) the date of the next annual general meeting of the Company; (b) the date by which the next annual general meeting is required to be held by law or the Articles; and (c) the date upon which such authority is revoked or varied by an ordinary resolution of the shareholders in a general meeting of the Company.

2. Reasons for repurchases

The Directors have no present intention to repurchase any Shares but consider that the mandate will provide the Company the flexibility to make such purchase when appropriate and beneficial to the Company. Such repurchases may enhance the net value of the Company and/or earnings per share.

3. Funding of repurchases

The Company is empowered by its memorandum and articles of association to purchase its Shares. In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the memorandum and articles of association and the applicable laws and regulations of the Cayman Islands. The Company may not repurchase Shares on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under the laws of the Cayman Islands, the Shares so repurchased will be treated as cancelled and the amount of the Company's issued capital shall be diminished accordingly, but the aggregate amount of authorised share capital of the Company will not be reduced.

4. General

If the repurchase mandate were exercised in full, there could be a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group (as compared with the position disclosed in the audited financial statements for the year ended 31 December 2002). The Directors therefore do not propose to exercise the repurchase mandate to such an extent.

5. Share prices

The Company has not repurchased any of its Shares (whether on GEM or otherwise) in the six months preceding the date of this circular.

The highest and lowest prices at which Shares have been traded on GEM during each of the previous twelve months were as follows:

	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2002		
March	1.39	1.10
April	1.42	1.28
May	1.62	1.44
June	1.58	1.47
July	1.54	1.30
August	1.38	1.16
September	1.20	1.16
October	1.20	0.90
November	0.93	0.61
December	0.71	0.66
2003		
January	0.80	0.68
February	0.80	0.75

6. Directors and connected persons

None of the Directors nor, to the best of their knowledge, having made all reasonable enquiries, none of their respective associates, has any present intention, in the event that the grant to the Directors of a repurchase mandate is approved by the Shareholders, to sell any Shares to the Company or its subsidiaries.

No connected persons (as defined in the GEM Listing Rules) of the Company has notified the Company that he has a present intention to sell Shares to the Company or has undertaken not to do so in the event that the repurchase mandate is approved by the Shareholders. In accordance with the GEM Listing Rules, the Company is prohibited from knowingly purchase Shares from a connected person on GEM and a connected person shall not knowingly sell his Shares to the Company.

7. Undertaking of the Directors

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands and Hong Kong and in accordance with the regulations set out in the memorandum and articles of association of the Company.

TAKEOVER CODE

If as a result of a share repurchase, the proportionate interest in the voting rights of the Company held by a Shareholder increases, such increase will be treated as an acquisition for the purpose of Rule 32 of the Takeover Code. Accordingly, the Shareholder or parties acting in concert with that Shareholder could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rules 26 and 32 of the Takeover Code.

As at the Latest Practicable Date, Sebastian and Mitac beneficially held 76,900,000 Shares and 35,100,000 Shares, respectively, representing approximately 40.05% and 18.28%, respectively, of the issued share capital of the Company, were the only Substantial Shareholders holding more than 10% of the Shares in issue. Should the power to repurchase Shares pursuant to the repurchase mandate be exercised in full, Sebastian and Mitac would be beneficially interested in 44.50% and 20.31%, respectively, of the issued share capital of the Company. Should the power to repurchase Shares pursuant to the repurchase mandate be exercised in full, the increase in shareholding of Sebastian would give rise to an obligation to make a mandatory offer under Rule 26 of the Takeover Code. If so, the Directors will take all necessary steps to comply with the GEM Listing Rules and the Takeover Code. The Directors have no present intention to repurchase any Shares to the extent that it will trigger the obligations under the Takeover Code to make a mandatory offer.

The Directors do not propose to exercise the repurchase mandate to such extent as to result in the number of Shares which are in the hands of the public falling below the prescribed minimum as required by the Stock Exchange.