
IMPORTANT

If you are in any doubt as to any aspect of this circular, 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 the Company, you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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.

This circular does not constitute an offer of, nor is it calculated to invite offers for, shares or other securities of the Company, nor have such shares or other securities been allotted with a view to any of them being offered for sale to the public. No new shares will be issued in connection with, or pursuant to, the publication of this circular.



KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

金蝶國際軟件集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8133)

**PROPOSED VOLUNTARY WITHDRAWAL OF LISTING
ON THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED,
REDUCTION OF MINIMUM NOTICE PERIOD
IN RESPECT OF THE PROPOSED WITHDRAWAL,
ADOPTION OF THE PROPOSED SHARE OPTION SCHEME,
TERMINATION OF THE 2002 SCHEME,
ADOPTION OF THE PROPOSED ARTICLES OF
ASSOCIATION IN SUBSTITUTION
FOR THE ARTICLES OF ASSOCIATION
AND
DISCLOSURE OF CERTAIN FINANCIAL AND OTHER INFORMATION
AND
GRANT OF NEW GENERAL MANDATES AND
REVOCAION OF EXISTING GENERAL MANDATES TO ISSUE AND
REPURCHASE SHARES**

Financial adviser to Kingdee



A letter from the Board is set forth on pages 6 to 20 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at 4th Level, Zone B, Block W1, Hi-Tech Industrial Park, Shennan Highway, Nanshan District, Shenzhen, Guangdong Province, the PRC on Monday, 11 July 2005 at 2:00 p.m. or any adjournment thereof is set forth on pages 55 to 59 of this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjournment thereof to the office of the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM 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 at least seven days from the date of posting.

17 June 2005

CHARACTERISTICS OF GEM

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

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

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

CONTENTS

	<i>Page</i>
Definitions	1
Responsibility statement	4
Expected timetable	5
Letter from the Board	6
Appendix I – Summary of the principal terms of the Proposed Share Option Scheme	21
Appendix II – Summary of the principal terms of the Proposed Articles of Association	30
Appendix III – Explanatory Statement	52
Notice of EGM	55

DEFINITIONS

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

“Articles of Association”	the existing articles of association of the Company which were adopted on 27 April 2005
“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
“Company”	Kingdee International Software Group Company Limited (金蝶國際軟件集團有限公司), a limited liability company incorporated in the Cayman Islands on 22 September 1999
“Companies Law”	the Companies Law, Chapter 22 (2004 Revision) (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules which in the context of this document, refers to Mr. XU Shao Chun, Oriental Gold Limited (a company wholly owned by Mr. Xu Shao Chun) and Billion Ocean Limited (a company wholly owned by Mr. Xu Shao Chun). As at the Latest Practicable Date, they held an aggregate of 149,809,130 Shares, being 33.80% of the total issued share capital of the Company
“Director(s)”	the director(s) of the Company
“Effective Date”	on or about 20 July 2005, the day on which the Proposed Withdrawal becomes effective
“EGM”	an extraordinary general meeting of our Company to be held at 4th Level, Zone B, Block W1, Hi-Tech Industrial Park, Shennan Highway, Nanshan District, Shenzhen, Guangdong Province, the PRC on Monday, 11 July 2005 at 2:00 p.m. or any adjournment thereof
“Existing General Mandates”	the general mandates to issue Shares and repurchase Shares granted to the Directors pursuant to resolutions No. 5(A) and 5(B) respectively at the annual general meeting of the Company held on 27 April 2005
“GEM”	the Growth Enterprise Market operated by the Stock Exchange

DEFINITIONS

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Introduction”	the proposed listing of the Shares on the Main Board by way of introduction pursuant to the Listing Rules
“Latest Practicable Date”	10 June 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“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 stock 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
“Notice”	the notice convening the EGM which is set out on pages 55 to 59 of this circular
“Pre-IPO Share Option Scheme”	the share option scheme approved and adopted by our Company on 30 January 2001, the principal terms of which are summarised in the section headed “Pre-IPO Share Option Scheme” in appendix V to the Prospectus
“Proposed Articles of Association”	the proposed articles of association to be adopted by the Company at the EGM, a summary of the principal terms of which is set forth in Appendix II to this circular
“Proposed Share Option Scheme”	the proposed share option scheme to be conditionally 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 the listing of the Shares on GEM

DEFINITIONS

“Prospectus”	the prospectus of the Company dated 9 February 2001 for the listing on GEM on 15 February 2001
“Repurchase Resolution”	the ordinary resolution relating to the Share Repurchase Mandate as set out in resolution no. 4 in the Notice
“Share Repurchase Mandate”	a general mandate proposed to be granted to the Directors to exercise the power of the Company to repurchase Shares up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing resolution no. 4 as set out in the Notice
“2001 Scheme”	the share option scheme approved and adopted by our Company on 30 January 2001
“2002 Scheme”	the share option scheme approved and adopted by our Company on 26 April 2002
“Shareholder(s)”	holder(s) of Share(s)
“Sponsor”	DBS Asia Capital Limited, a licensed corporation under SFO permitted to engage in types 1, 4 and 6 of the regulated activities (as defined in SFO) which is appointed as the sponsor to the Introduction
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“per cent.”	percentage

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief: (i) the information contained in this circular is accurate and complete in all material aspects and not misleading; (ii) there are no other matters the omission of which would make any statement herein 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 forth below:–

Despatch of circular, notice of the EGM and related forms of proxy for the EGM to the Shareholders	Friday, 17 June 2005
Despatch of the listing document in relation to the Introduction	Friday, 17 June 2005
Latest time for lodgement of forms of proxy for the EGM	2:00 p.m. on Saturday, 9 July 2005
EGM	2:00 p.m. on Monday, 11 July 2005
Date of the announcement of results of the EGM, notice of the Proposed Withdrawal to be published in The Standard (in English), Hong Kong Economic Times (in Chinese) and on the GEM website	Tuesday, 12 July 2005
Last day of dealings in the Shares on GEM	Tuesday, 19 July 2005
Withdrawal of listing of the Shares on GEM effective from	9:30 a.m. on Wednesday, 20 July 2005
Commencement of dealings in the Shares on the Main Board	9:30 a.m. on Wednesday, 20 July 2005

Note: All times and dates refer to Hong Kong local times and dates.

Kingdee

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

金蝶國際軟件集團有限公司

(incorporated in the Cayman Islands with limited liability)

Executive Directors:

Mr. Xu Shao Chun
Mr. Luo Ming Xing

Non-executive Directors:

Mr. James Ming King
Mr. Zhao Yong
Mr. Hugo Shong

Independent Non-executive Directors:

Ms. Yang Zhou Nan
Mr. Wu Cheng
Mr. Yeung Kwok On
Mr. Gary Clark Biddle

Registered Office:

Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

*Head Office and principal place
of business in the PRC:*

4th Level, Zone B, Block W1
Hi-Tech Industrial Park
Shennan Highway, Nanshan District
Shenzhen, Guangdong Province
PRC

*Principal place of business
in Hong Kong:*

37th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

To the Shareholders

Dear Sirs,

**PROPOSED VOLUNTARY WITHDRAWAL OF LISTING
ON THE GROWTH ENTERPRISE MARKET OF
THE STOCK EXCHANGE OF HONG KONG LIMITED,
REDUCTION OF MINIMUM NOTICE PERIOD
IN RESPECT OF THE PROPOSED WITHDRAWAL,
ADOPTION OF THE PROPOSED SHARE OPTION SCHEME,
TERMINATION OF THE 2002 SCHEME,
ADOPTION OF THE PROPOSED ARTICLES OF
ASSOCIATION IN SUBSTITUTION
FOR THE ARTICLES OF ASSOCIATION
AND
DISCLOSURE OF CERTAIN FINANCIAL AND OTHER INFORMATION
AND
GRANT OF NEW GENERAL MANDATES AND
REVOCAION OF EXISTING GENERAL MANDATES TO ISSUE AND
REPURCHASE SHARES**

INTRODUCTION

On 23 September 2004, the Company announced that it submitted an application to the Stock Exchange on the same day for the proposed listing of the Shares on the Main

LETTER FROM THE BOARD

Board by way of introduction and its intention to voluntarily withdraw the listing of the Shares on GEM conditional upon, among other things, the approval of the application for the proposed listing of the Shares on the Main Board.

As part of the Introduction, the Directors propose to the Shareholders the proposed grant of new general mandates to issue and repurchase Shares in substitution for the Existing General Mandates, the proposed termination of the 2002 Scheme and adoption of the Proposed Share Option Scheme and the proposed adoption of the Proposed Articles of Association, for complying with the requirements under the Listing Rules.

The purpose of this circular is to give you further information regarding the Proposed Withdrawal, the Introduction, the proposed adoption of the Proposed Share Option Scheme, the proposed termination of the 2002 Scheme, the Proposed Articles of Association, and the proposed grant of general mandates to issue and repurchase Shares in substitution for the Existing General Mandates and to seek your approval of the relevant resolutions relating to the Proposed Withdrawal, the reduction of the minimum notice period for the Proposed Withdrawal, the adoption of the Proposed Share Option Scheme, the termination of the 2002 Scheme, the adoption of the Proposed Articles of Association in substitution for the Articles of Association and the grant of general mandates to issue and repurchase Shares in substitution for the Existing General Mandates, to be proposed at the EGM.

THE PROPOSED WITHDRAWAL AND THE INTRODUCTION

On 23 September 2004, the Sponsor, for and on behalf of the Company, submitted an application to the Stock Exchange for the listing on the Main Board of, and permission to deal on the Main Board in (i) the Shares in issue; and (ii) any Shares, representing not more than 10% of the total issued share capital of the Company as at the date of EGM which may be issued upon the exercise of any options which were granted under the 2001 Scheme (which was terminated on 26 April 2002 upon the adoption of the 2002 Scheme) or have been or may be granted under the 2002 Scheme prior to its termination upon listing on the Main Board, or which may be issued upon the exercise of any options which may be granted under the Proposed Share Option Scheme or any other share option schemes of the Company. On 22 April 2005, the Sponsor, for and on behalf of the Company, submitted a new application to the Stock Exchange in respect of the Introduction as the original application has lapsed because it has been outstanding for more than 6 months. The Stock Exchange has informed the Sponsor 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.

LETTER FROM THE BOARD

Waiver From Strict Compliance with Minimum Notice Period in respect of the Proposed Withdrawal

Pursuant to Rule 9.19 of 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:–

- (a) 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
- (b) the issuer has given its shareholders at least three months' notice of the proposed withdrawal of listing. This minimum notice period must run from the date on which the shareholders approve the voluntary withdrawal of listing and such notice must include details of how to transfer securities to and trade those securities on the alternative market.

Pursuant to the news release issued by the Stock Exchange on 16 January 2002 regarding the notice period of proposed withdrawal of listing and in connection with the Proposed Withdrawal, the Company has applied to and has obtained from the Stock Exchange a waiver from strict compliance with the minimum three months' notice required under the GEM Listing Rules, subject to the fulfilment of the following conditions:–

- (i) prior approval shall have been obtained from the Shareholders for the reduction of the notice period for the Proposed Withdrawal to a minimum of five clear Business Days;
- (ii) in respect of the Shares, there is no change in the board lot size or the share certificates, the share registrar, and the trading currency in connection with the proposal to transfer its listing status. For easy reference, the Shares will continue to be traded in board lots of 2,000 shares each, the existing share certificates in respect of the Shares will continue to be good evidence of legal title, the principal share registrar and the Hong Kong branch share registrar will continue to be Bank of Butterfield International (Cayman) Ltd. and Computershare Hong Kong Investor Services respectively, and the trading currency will continue to be Hong Kong dollars; and
- (iii) there is no other fact that leads the Stock Exchange to believe that the reduced notice period is not feasible.

Accordingly, the EGM is convened to seek the approval of the Shareholders for, among other things, the Proposed Withdrawal and the reduction of the notice period for the Proposed Withdrawal. After such approval shall have been obtained, a notice of the Proposed Withdrawal will be published no less than five clear Business Days before the Effective Date.

The Directors consider that it is in the best interest of the Shareholders and the Company as a whole that the notice period for the Proposed Withdrawal be reduced so that the Proposed Withdrawal and the Introduction can be carried out as soon as practicable after obtaining the relevant approvals from the Shareholders at the EGM.

LETTER FROM THE BOARD

Conditions of the Proposed Withdrawal

Implementation of the Proposed Withdrawal will be conditional on, among other things:–

- (a) the passing of an ordinary resolution by the Shareholders at the EGM to approve the Proposed Withdrawal;
- (b) The Stock Exchange granting a waiver from strict compliance with minimum three months' notice period requirement for the Proposed Withdrawal;
- (c) the publication of a notice of the Proposed Withdrawal as required by the GEM Listing Rules after the approval of the Shareholders for the Proposed Withdrawal shall have been obtained at the EGM on a date that is no less than five clear Business Days prior to the Effective Date; and
- (d) the granting by the Listing Committee of the Stock Exchange of listing on the Main Board of, and permission to deal on the Main Board in (i) the Shares in issue; and (ii) any Shares, representing not more than 10% of the total issued share capital of the Company as at the date of EGM, which may be issued upon the exercise of any options which were granted under the 2001 Scheme or have been or may be granted under the 2002 Scheme prior to its termination upon listing on the Main Board, or which may be issued upon the exercise of any options which may be granted under the Proposed Share Option Scheme or any other share option schemes of the Company.

Effects of the Proposed Withdrawal

It is expected that dealings in the Shares on GEM will cease at 9:30 a.m. on the Effective Date and dealings in the Shares on the Main Board will commence at 9:30 a.m. on the Effective Date. The Company will make a further announcement after the EGM to publish the results of the EGM 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 in respect of the Shares which will continue to be good evidence of legal title and will not involve any transfer or exchange of the existing share certificates. No new share certificates with new stock code will be issued. No change will 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. Shares will continue to be traded in board lots of 2,000 Shares each following the Introduction. If and when the Shares are listed on the Main Board upon implementation of the Introduction, 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 publication on the internet website operated by the Stock Exchange whilst the principal means of information dissemination by listed issuers on the Main Board is through newspapers. In addition, listed issuers on the Main Board are not required to publish quarterly reports. **Upon its listing on the Main Board, our Company will cease the practice of quarterly reporting and will follow the relevant requirement of the**

LETTER FROM THE BOARD

Listing Rules which include, among other things, through paid announcements on newspapers generally circulated in Hong Kong, publish its interim results and the annual results within three months and four months from the end of relevant period or financial year end respectively. Upon the listing of the Shares on the Main Board, the Company will comply with all the disclosure requirements of the Listing Rules and will make any disclosures as required under the Listing Rules. Our Directors are of the view that quarterly results may not reflect the our full year performance, as they are bound to be affected by various matters beyond our control, such as the market strategies of the various participants in the market and the holidays in a particular quarter. Our Directors are of the view that following the reporting requirements under the Listing Rules will provide investors and shareholders a relatively complete picture of our performance during the relevant period without being affected by the factors described above.

Reasons for the Withdrawal

Since the listing of the Company on GEM in February 2001, the business of the Group has been growing rapidly, with turnover of approximately RMB294.5 million for the financial year ended 31 December 2002 increased to approximately RMB445.9 million for the financial year ended 31 December 2004.

The track record of the Group for the latest three financial years ended 31 December 2004 met the minimum profit requirement as stipulated in the Listing Rules. With the anticipated continuous economic development in the PRC and the rapid development of the software market in the PRC, the Directors believe that the business of the Group will continue to grow further and listing on the Main Board will enhance the profile of the Group, resulting in more research coverage from industry analysts that will lead to more trading liquidity of the Shares. All of these will benefit the Group's future business development and increase its financial flexibility.

The Group will continue to pursue its current business of developing and providing enterprise application software and related services in the PRC.

The Introduction will involve no issue of new Shares by the Company.

FINANCIAL INFORMATION OF THE GROUP

INDEBTEDNESS

Borrowings

As at the close of business 30 April 2005, being the latest practicable date for this indebtedness statement prior to the printing of this document, the Group had unsecured and unguaranteed short-term bank loans of approximately RMB24 million (approximately HK\$23 million). The bank loans were fully repaid in May 2005.

Commitments

As at 30 April 2005, the Group had operating lease commitments of approximately RMB32 million (approximately HK\$30 million).

LETTER FROM THE BOARD

Disclaimers

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities outstanding at the close of business on 30 April 2005.

Save for disclosed above, the Directors confirm that there have been no material changes in the Group's indebtedness and contingent liabilities since 30 April 2005.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Liquidity

The following table summarises the Group's cash flows for the three financial years ended 31 December 2004:–

	Financial year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash generated from operating activities	39,158	105,817	116,686
Net cash used in investing activities	(54,313)	(56,671)	(68,558)
Net cash generated from/(used in) financing activities	21,136	(16,263)	2,401
Effect of foreign exchange rate change	14	149	(268)
	<hr/>	<hr/>	<hr/>
Net increase in cash and cash equivalents	5,995	33,032	50,261
Cash and cash equivalents at 1 January	125,431	131,426	164,458
	<hr/>	<hr/>	<hr/>
Cash and cash equivalents at 31 December	<u>131,426</u>	<u>164,458</u>	<u>214,719</u>

The Group's primary sources of liquidity have been capital contributions from Shareholders, proceeds of borrowings from banks, cash flow from operations, which represents net income adjusted for changes in working capitals and non-cash items, primarily depreciation, amortisation and provision for doubtful debts.

Net cash flows from operating activities for the financial year ended 31 December 2002 amounted to approximately RMB39 million (approximately HK\$37 million), notwithstanding that the Group's profit before taxation was approximately RMB43 million (approximately HK\$40 million). The difference of approximately RMB4 million (approximately HK\$3 million) was primarily attributable to the net effect of (i) the adjustments for non-cash item such as depreciation, amortisation and provision for doubtful debts; and (ii) increase in trade receivables.

LETTER FROM THE BOARD

Net cash from operating activities for the financial year ended 31 December 2003 amounted to approximately RMB106 million (approximately HK\$100 million), notwithstanding that the Group's profit before taxation was approximately RMB68 million (approximately HK\$64 million). The difference of approximately RMB38 million (approximately HK\$36 million) was primarily attributable to the adjustments for non-cash item such as depreciation, amortization and provision for doubtful debts. The increase in net cash generated from operating activities of approximately RMB67 million (approximately HK\$63 million) from 2002 mainly due to the increase in cash received from customers on more sales made during 2003.

Net cash from operating activities for the financial year ended 31 December 2004 amounted to approximately RMB117 million (approximately HK\$110 million). The Group's profit before taxation was approximately RMB60 million (approximately HK\$56 million). The difference of approximately RMB57 million (approximately HK\$54 million) was primarily attributable to the adjustments for non-cash item such as depreciation, amortization and provision for doubtful debts. The increase in net cash generated from operating activities of approximately RMB11 million (approximately HK\$10 million) from 2003 was mainly due to the increase in cash received from customers on more sales made during 2004. The increase in net cash generated from operating activities of approximately RMB11 million is smaller than the increase in sales of approximately RMB80 million in 2004 as it took more time in 2004 to collect money from its customers who are in the property development, securities and steel industries whose operating environment were adversely affected by the austerity measures taken by the PRC government such as the tightening of credit policy on bank loan applications during the same year.

Cash used in investing activities has been used primarily to make capital expenditure for the purchase of property, plant, equipment and intangible assets as well as investment in subsidiaries and joint ventures. The significant net cash used in investing activities in 2003 and 2004 was primarily due to the investment in research and development.

For the year ended 31 December 2004, net cash generated from financing activities was approximately RMB2 million (approximately HK\$2 million). The net cash used in financing activities in 2003 was primarily due to the repayment of bank loan of approximately RMB47 million (approximately HK\$44 million). The cash generated from financing activities in 2002 of approximately RMB21 million (approximately HK\$20 million) was mainly resulted from the new bank loan of RMB25 million (approximately HK\$24 million) taken up by us.

For the three financial years ended 31 December 2004, the Group had arranged a number of short-term bank loans to satisfy its financing needs. As at the Latest Practicable Date, the Group had not experienced any difficulty in raising funds by short-term bank loans from various banks in the PRC, and the Group had not experienced any liquidity problems in settling the Group's payables in the normal course of business and repaying its bank loans when they fall due.

For further details of the Group's debt financing, please refer to the paragraphs under "Indebtedness" above.

LETTER FROM THE BOARD

Financial resources and capital structure

The Group generally finance its operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings. The Directors believe that on a long-term basis, the Group's liquidity will be funded from operations and, if necessary, additional equity financing or bank borrowings.

The Group's net gearing ratio was approximately 9 per cent., 5 per cent. and 5 per cent. as at 31 December 2002, 2003 and 2004, respectively. The bank loans of our Company as at 31 December 2002, 2003 and 2004 were approximately RMB28 million (approximately HK\$26 million), RMB20 million (approximately HK\$19 million) and RMB24 million (approximately HK\$23 million), respectively.

The Group's Directors are of the opinion that, taking into consideration the financial resources available to us, the Group have sufficient funding for the Group's present capital and operating requirements.

The gearing ratio in 2002 was relatively high compared to that of 2003 and 2004 as our asset size has been growing since 2003. We finance our operations and expansion primarily through internal financial resources and did not have any significant bank borrowings during the three financial years ended 31 December 2004.

The bank loans of approximately RMB24 million (approximately HK\$23 million) and the cash balances of approximately RMB215 million (approximately HK\$203 million) as at 31 December 2004 were mainly used to finance the recurring needs of business operations.

WORKING CAPITAL

The Directors after due and careful enquiry are of the opinion that, taking into consideration the financial resources available to us including the Group's internally generated funds, the Group have sufficient working capital for its requirements in the next 12 months commencing from the date of this document.

PROPOSED SHARE OPTION SCHEME

In connection with the Introduction, the Directors propose to seek the approval of the Shareholders for the adoption of 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 forth in Appendix I to this circular. The terms of the Proposed Share Option Scheme provide that in granting options under the Proposed Share Option Scheme, the Board can determine whether there is any minimum holding period, and whether there is any performance target which must be achieved, before an option granted under the Proposed Share Option Scheme can be exercised. The Board will also determine the option price per Share payable on the exercise of an option according to the terms of the Proposed Share Option Scheme. Subject to the Proposed Share Option Scheme becoming effective, the Board intends to exercise its powers under the Proposed Share Option Scheme during the Scheme Period with the objective of serving the purposes of the Proposed Share Option Scheme.

LETTER FROM THE BOARD

The Board considers that it is not appropriate to state the value of all options that can be granted under the Proposed 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, lock up period (if any), performance targets set (if any) and other relevant variables. The Board believes that any calculation of the value of any option which might have been granted on the Latest Practicable Date would be based on a number of speculative assumptions and would therefore not be meaningful but would be misleading to the Shareholders.

The 2002 Scheme will be terminated and replaced by the Proposed Share Option Scheme when the Proposed Share Option Scheme shall have conditionally been approved and adopted by the Shareholders and such adoption shall have become unconditional.

OUTSTANDING SHARE OPTIONS

The Company adopted the Pre-IPO Share Option Scheme and the 2001 Scheme on 30 January 2001, and the 2002 Scheme on 26 April 2002.

Outstanding share options under the Pre-IPO Share Option Scheme (which had been terminated upon the listing of the Shares on GEM on 15 February 2001)

As at the Latest Practicable Date, an aggregate of 1,300,000 share options were granted, of which 475,000 share options were exercised, 825,000 share options were cancelled and no more option remained outstanding under the Pre-IPO Share Option Scheme.

Outstanding share options under the 2001 Scheme and 2002 Scheme

The 2001 Scheme was adopted by the Company on 30 January 2001 and was terminated by the Company upon the adoption of the 2002 Scheme on 26 April 2002.

As at the date of adoption of the 2002 Scheme, an aggregate of 43,775,000 share options, representing 10% of the issued share capital of the Company as at the date thereof, were authorised to granted pursuant to 2002 Scheme.

As at the Latest Practicable Date, an aggregate of 1,720,000 share options were granted pursuant to 2001 Scheme, of which 385,000 share options were exercised, 672,500 were cancelled and 662,500 remained outstanding.

As at the Latest Practicable Date, an aggregate of 48,462,500 share options were granted pursuant to 2002 Scheme, of which 1,788,500 share options were exercised, 15,525,500 were cancelled and 31,148,500 remained outstanding.

LETTER FROM THE BOARD

Details of these outstanding options are as follows:

Date of grant	No. of outstanding Share options as at the Latest Practicable Date	No. of employees	Subscription price per share	Option period <i>HK\$</i>	Share Option Scheme
27/9/2001	662,500	11	1.49	27/9/2001 – 26/9/2010 <i>(Note 1)</i>	2001 Scheme
15/5/2002	2,995,000	4	1.78	15/5/2002 – 14/5/2012 <i>(Note 2)</i>	2002 Scheme
20/2/2003	4,631,500	38	1.39	20/2/2003 – 19/2/2013 <i>(Note 2)</i>	2002 Scheme
8/8/2003	3,122,000	1,561	2.05	8/8/2003 – 7/8/2013 <i>(Note 3)</i>	2002 Scheme
23/3/2004	4,000,000	1	3.18	23/3/2004 – 22/3/2014 <i>(Note 4)</i>	2002 Scheme
1/6/2004	9,882,500	150	2.65	1/6/2004 – 31/5/2014 <i>(Note 5)</i>	2002 Scheme
27/12/2004	3,277,500	149	2.05	27/12/2004 – 26/12/2014 <i>(Note 6)</i>	2002 Scheme
21/4/2005	3,240,000	4	1.55	21/4/2005 – 20/4/2010 <i>(Note 7)</i>	2002 Scheme
Total	31,811,000	–	–	–	–

LETTER FROM THE BOARD

Notes:–

1. All of these options have a duration of 10 years from the date of grant, provided that the options may not be exercised in respect of more than 25%, 50% and 75% of the options within 12 months, 24 months and 36 months respectively from the date of grant.
2. All of these options have a duration of 10 years from the date of grant, provided that the options may not be exercised within 12 months from the date of grant and that the options may not be exercised in respect of more than 25%, 50% and 75% of the options within 12 months, 24 months and 36 months respectively from 1 year after the date of grant.
3. All of these options have a duration of 10 years from the date of grant, provided that the options can only be exercised from the date of 8 August 2004.
4. All of these options have a duration of 10 years from 23 March 2004, provided that the options may not be exercised in respect of more than 50% of the options prior to the date of 31 December 2004.
5. All of these options have a duration of 10 years from the date of grant, provided that
 - (i) the options cannot be exercised within 1 year from the date of grant;
 - (ii) the number of options that can be exercised within the 2 years from the date of grant cannot be more than 25% of the revenue ratio for the financial year of 2004;
 - (iii) the number of options that can be exercised within the 3 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004 and 2005;
 - (iv) the number of options that can be exercised within the 4 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004, 2005 and 2006;
 - (v) the number of options that can be exercised after 4 years from the date of grant cannot be more than 25% of the aggregate revenue ratios for the financial years of 2004, 2005, 2006 and 2007;

“Revenue Ratio” shall equal to the actual revenue of the Group divided by the estimated revenue of the Group as determined by the Board for a particular financial year.
6. All of these options have a duration of 10 years from the date of grant and the options can be exercised from the date of grant.
7. All of these options have a duration of 5 years from the date of grant.

Notwithstanding the termination of the 2001 Scheme and the proposed termination of the 2002 Scheme, the outstanding options previously granted but unexercised under the 2001 Scheme and 2002 Scheme mentioned above will remain valid and exercisable in accordance with the provisions of the 2001 Scheme and the 2002 Scheme respectively and the respective terms of granting such options.

Conditions of the Proposed Share Option Scheme

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

- (A) the passing of an ordinary resolution by the Shareholders at a general meeting to approve the termination of the 2002 Scheme, to approve and adopt the Proposed Share Option Scheme, and to authorise the Directors to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of any options granted under the Proposed Share Option Scheme;

LETTER FROM THE BOARD

- (B) the Listing Committee of the Stock Exchange granting approval to the listing of, and permission to deal on the Main Board in (i) the Shares in issue; (ii) any Shares, representing not more than 10% of the total issued share capital of the Company as at the date of Extraordinary General Meeting, which may be issued upon the exercise of any options which were granted under the 2001 Scheme or have been or may be granted under the 2002 Scheme prior to its termination upon listing on the Main Board, or which may be issued upon the exercise of any options which may be granted under the Proposed Share Option Scheme or any other share option scheme of the Company; and
- (C) the commencement of dealing in the Shares on the Main Board.

PROPOSED ARTICLES OF ASSOCIATION

In connection with the Introduction and to remove references to GEM and to make other changes (including the clarification of the article regarding rotation and retirement of directors) in the Articles of Association, the Directors propose to seek the approval of the Shareholders for the adoption of the Proposed Articles of Association at the EGM, 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 is set forth 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 conditionally been approved and adopted by the Shareholders at the EGM and such adoption shall have become unconditional.

Conditions of the Proposed Articles of Association

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

- (a) the passing by the Shareholders at the EGM of the special resolution approving the adoption of the Proposed Articles of Association in substitution for the Articles of Association; and
- (b) the listing of the Shares on the Main Board.

GENERAL MANDATES

The Directors are of the view that as the Existing General Mandates make specific references to GEM, in connection with the Introduction and to cater for the situation that the Shares are listed on GEM or the Main Board, ordinary resolutions will be proposed at the EGM to revoke the Existing General Mandates and to grant new general mandates to the Directors (i) to allot, issue and deal with Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the relevant resolution; and (ii) to repurchase Shares with an aggregate nominal amount up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the relevant

LETTER FROM THE BOARD

resolution. Both new general mandates will expire on the earliest of: (a) the conclusion of the next annual general meeting of the Company (“AGM”); (b) the expiration of the period within which the next AGM is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; or (c) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors by the relevant resolutions.

Another ordinary resolution will also be proposed at the EGM to add to the new general mandate to be granted to the Directors to allot, issue and deal with Shares by an amount representing the aggregate nominal amount of the share capital of the Company (up to a maximum of 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing the relevant resolution) repurchased under the Share Repurchase Mandate. The relevant resolution is set out as resolution no. 5 in the Notice.

An explanatory statement containing all relevant information relating to the Share Repurchase Mandate is set out in Appendix III to this circular. The information in the explanatory statement is to provide you with the information reasonably necessary to enable you to make an informed decision on whether to vote for or against the resolution to grant to the Directors the Share Repurchase Mandate at the EGM.

The Directors confirm that they have not exercised the Existing General Mandates to issue Shares and repurchase Shares respectively after they have been granted to the Directors on 27 April 2005 and that they have no present intention to exercise such general mandates prior to the proposed listing of the Shares on the Main Board.

THE EGM

Set forth on pages 55 to 59 of this circular is a notice convening the EGM to be held at 4th Level, Zone B, Block W1, Hi-Tech Industrial Park, Shennan Highway, Nanshan District, Shenzhen, Guangdong Province, the PRC on Monday, 11 July 2005 at 2:00 p.m., or any adjournment thereof, at which ordinary resolutions will be proposed to consider and, if thought fit, approve, among other matters, the following:–

- (a) the Proposed Withdrawal and the reduction of the notice period for the Proposed Withdrawal;
- (b) the adoption of the Proposed Share Option Scheme and the termination of the 2002 Scheme;
- (c) the revocation of the Existing General Mandates and the granting of new general mandates to issue and repurchase Shares.

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

LETTER FROM THE BOARD

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon not less than 48 hours before the time for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting should you so wish.

RIGHT TO DEMAND A POLL

Pursuant to article 80 of the Articles of Association, 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 or otherwise required under the Listing Rules. A poll may be demanded by:

- (i) the chairman of the meeting; or
- (ii) at least five Shareholders present in person or by proxy and entitled to vote; or
- (iii) any Shareholder or Shareholders present in person (or in the case of a corporation by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (iv) any Shareholder or Shareholders present in person (or in the case of a corporation, by its duly authorised representative) 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.

Unless a poll is so required or demanded and, in the latter case, not withdrawn, a declaration by the chairman that a resolution has on a show of hands been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the Company's book containing the minutes of proceedings of meetings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded for or against such resolution.

DOCUMENTS AVAILABLE FOR INSPECTION

The listing document issued by the Company in connection with the Introduction is enclosed with this circular, for information purposes only, and will be available for inspection at the EGM.

LETTER FROM THE BOARD

Copies of the following documents will be available for inspection at the offices of Mallesons Stephen Jaques at 37th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong during normal business hours up to and including the date of the EGM and will also be available for inspection at the EGM:–

- (i) the Articles of Association and the Proposed Articles of Association; and
- (ii) the respective rules of the 2002 Scheme and the Proposed Share Option Scheme.

RECOMMENDATION

The Board considers that the Proposed Withdrawal, the reduction of the notice period for the Proposed Withdrawal, the adoption of the Proposed Share Option Scheme, the termination of the 2002 Scheme, the adoption of the Proposed Articles of Association in substitution for the Articles of Association and the proposed grant of general mandates to issue and repurchase Shares in substitution for the Existing General Mandates are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Board recommends that the Shareholders vote in favour of each of the resolutions set forth in the notice of the EGM.

Mr. Xu Shao Chun, the Chairman and the Controlling Shareholder who as at the Latest Practicable Date held 149,809,130 Shares through Oriental Gold Limited, Billion Ocean Limited and his personal holding, representing approximately 33.80 per cent. of the issued share capital of the Company, has confirmed to the Company that he and his said companies will vote in favour of each of the resolutions to be proposed at the EGM.

Your attention is drawn to the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Xu Shao Chun
Chairman

Shenzhen, the PRC, 17 June 2005

The following is a summary of the principal terms of the rules of the Proposed Share Option Scheme to be adopted at the Extraordinary General Meeting. The adoption of the Proposed Share Option Scheme are conditional on (A) the passing of an ordinary resolution by the Shareholders at a general meeting to approve the termination of the 2002 Scheme, to approve and adopt the Proposed Share Option Scheme, and to authorise the Directors to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of any options granted under the Proposed Share Option Scheme; and (B) the Listing Committee of the Stock Exchange granting approval to the listing of, and permission to deal in on the Main Board in (i) the Shares in issue; (ii) any Shares, representing not more than 10% of the total issued share capital of the Company as at the date of the Extraordinary General Meeting, which may be issued upon the exercise of any options which were granted under the 2001 Scheme or have been or may be granted under the 2002 Scheme prior to its termination upon listing on the Main Board, or which may be issued upon the exercise of any options which may be granted under the Proposed Share Option Scheme or any other share option schemes of the Company; and (C) the commencement of dealing in the Shares on the main board of the Stock Exchange.

The 2002 Scheme shall continue to be valid and effective unless and until the Proposed Share Option Scheme becomes unconditional and effective. If the Introduction is not approved at the Extraordinary General Meeting, the 2002 Scheme will continue to be effective.

Notwithstanding the termination of the 2001 Scheme and the proposed termination of the 2002 Scheme, the outstanding options previously granted but unexercised under the 2001 Scheme and the 2002 Scheme mentioned in this Appendix will remain valid and exercisable in accordance with the provisions of the 2001 Scheme and the 2002 Scheme respectively and the respective terms of granting such options.

(a) Purpose

The purpose of the Proposed Share Option Scheme is to enable the Group to grant options to selected participants as incentives for their contribution to the Group.

(b) Who may join

The Directors may, at their absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares at a price calculated in accordance with sub-paragraph (f) below:

- (i) any employee or proposed employee (whether full-time or part-time and including any executive director), consultants or advisers of or to the Company, any of its subsidiaries or any entity ("Invested Entity") in which the Group holds an equity interest;

- (ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (iii) any supplier of goods or services to any member of the Group or any Invested Entity;
- (iv) any customer of the Group or any Invested Entity;
- (v) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and
- (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity,

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

The basis of eligibility of any of the above classes of participants to the grant of any options shall be determined by the Directors from time to time on the basis of the relevant participants' contribution to the development and growth of the Group.

(c) Maximum number of Shares

- (i) The maximum 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 proposed share option scheme of the Company must not exceed 30% of the issued share capital of the Company from time to time. No options may be granted under any schemes of the Company (or the subsidiary of the Company) if this will result in the maximum number being exceeded.
- (ii) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Proposed Share Option Scheme and any other share option scheme of the Company) to be granted under the Proposed Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 10% of the Shares in issue at the date of the approval of the Proposed Share Option Scheme (the "General Mandate Limit").

- (iii) Subject to (i) above and without prejudice to (iv) below, the Company may seek approval of its shareholders in general meeting to refresh the General Mandate Limit. However, 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 scheme 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 limit. Options previously granted under the Proposed Share Option Scheme and any other share option scheme of the Company (including those outstanding, cancelled, lapsed in accordance with the Proposed Share Option Scheme and other share option scheme or exercised options) will not be counted for the purpose of calculating the limit as “refreshed”. The Company will send a circular to its shareholders containing the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.
- (iv) Subject to (i) above and without prejudice to (iii) above, the Company may seek separate approval by its shareholders in general meeting for granting options beyond the General Mandate Limit provided the options in excess of the limit are granted only to participants specifically identified by the Company before such approval is sought. The Company will send a circular to the shareholders containing a generic description of the specified participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified participants with an explanation as to how the terms of the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

(d) Maximum entitlement of each participant and connected persons

- (i) Unless approved by shareholders of the Company, the total number of Shares 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.
- (ii) 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 participant (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 Shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such participant and his associates abstaining from voting. The Company will 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), the information required under Rule 17.02(2)(d) the disclaimer required under Rule 17.02(4) of the Listing Rules. The number and terms (including the exercise price) of

options to be granted to such participant must be fixed before shareholders' approval and the date of the board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price under note (1) to Rule 17.03(9) of the Listing Rules.

- (iii) In addition to the shareholders' approval set out in note (1) to rule 17.03(3) and the note to rule 17.03(4) of the Listing Rules, each grant of options to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the Company's independent non-executive Directors (excluding any independent non-executive Director who is the grantee). Where any grant of options to a Substantial Shareholder or an independent non-executive Director or any of their respective associates would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) under the Proposed Share Option Scheme and any other share option schemes of the Company to such person in the 12-month period up to and including the date of such grant:
- (a) representing in aggregate over 0.1% of the Shares in issue; and
 - (b) having an aggregate value, based on the closing price of the Shares at the date of a grant is made, in excess of HK\$5 million,

such further grant of options must be approved by the shareholders of the Company. The Company must send a circular to the shareholders. All connected persons of the Company must abstain from voting in favour at such general meeting. Any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such option must be taken on a poll. The Company must comply with the requirements under Rules 13.39(5), 13.40, 13.41 and 13.42 of the Listing Rules or such relevant rules as amended by the Stock Exchange from time to time. The circular of the Company must disclose:

- (a) details of the number and terms (including the exercise price) of the options to be granted to each participant, which must be fixed before the shareholders' meeting, and the date of board meeting for proposing such further grant is to be taken as the date of grant for the purpose of calculating the exercise price under note (1) to rule 17.03(9). The description of the terms of the options must include the information required under rules 17.03(5) to 17.03(10) of the Listing Rules;
- (b) a recommendation from the independent non-executive directors of the listed issuer (excluding independent non-executive director who is the grantee of the options) to the independent shareholders as to voting;

- (c) the information required under rules 17.02(2)(c) and (d) and the disclaimer required under rule 17.02(4) of the Listing Rules; and
- (d) the information required under rule 2.17 of the Listing Rules.

(e) Minimum period of holding an option and performance target

The Directors will have the absolute discretion to fix the minimum period for which an option must be held before it can be exercised, and the performance targets that must be achieved before the options can be exercised upon the grant of an option to a participant.

(f) Subscription price for Shares

The subscription price of a Share in respect of any particular option granted under the Proposed Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the highest of (i) the nominal value of the Shares, (ii) the closing price of the Share as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; and (iii) the average closing price of the Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant. A nominal consideration of HK\$1.00 is payable on acceptance of the grant of an option.

(g) Rights are personal to grantee

An option may not be transferred or assigned and is personal to the grantee.

(h) Time of exercise of option

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option.

An option may be exercised in accordance with the terms of the Proposed Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on a day upon which the offer for the grant of the option is accepted but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination under paragraphs (i), (j) and (l) hereof.

(i) Rights on ceasing employment or death

If the grantee of an option, who is an employee of the Group or any Invested Entity at the time of the grant of the option, leaves the service of the Group or Invested Entity for any reason other than death, ill-health, retirement in accordance with his contract of employment, serious misconduct or certain other grounds, the option (to

the extent not already exercised) shall lapse on the date of cessation or termination and not be exercisable unless the Directors otherwise determine, in which case the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation or termination, which date shall be the last actual working day with the Company, the relevant subsidiary or Invested Entity whether salary is paid in lieu of notice or not. Failing exercise, the option will lapse.

If the grantee of an option, who is an employee of the Group or any Invested Entity at the time of the grant of the option, ceases to be an employee of the Group or Invested Entity by reason of death, ill-health or retirement in accordance with his contract of employment, before exercise of the option in full, the grantee or, if appropriate his or her lawful personal representative(s) may exercise the option in whole or in part (to the extent not already exercised) within a period of twelve months thereafter, failing which it will lapse.

(j) Rights on dismissal

If the grantee of an option leaves the service of the Group or Invested Entity by the reason of serious misconduct or on certain other grounds, his or her option (to the extent not already exercised) will thereupon lapse forthwith and will not in any event be exercisable on or after the date of cessation of employment.

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

If a general or partial offer, whether by way of take-over offer, share re-purchase offer, or scheme of arrangement or otherwise in like manner is made to all the holders of Shares, or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror, the Company shall use all reasonable endeavours to procure that such offer is extended to all the grantees (or his personal representative(s)) on the same terms, mutatis mutandis, and assuming that they will become, by the exercise in full of the options granted to them, Shareholders of the Company. If such offer becomes or is declared unconditional or arrangement is formally proposed to Shareholders of the Company, a grantee (or his personal representative(s)) shall be entitled to exercise his option (to the extent not already exercised) to its full extent or to the extent specified in the grantee's notice to the Company in accordance with the provisions of the Proposed Share Option Scheme at any time thereafter and up to the close of such offer (or any revised offer) or the record date for entitlements under scheme of arrangement, as the case may be.

(l) Rights on winding-up

In the event of an effective resolution being proposed for the voluntary winding up of the Company during the option period, the grantee of an option (or his or her legal personal representative(s)) may by notice in writing to the Company elect to

exercise the option either to its full extent or to the extent specified in such notice within two business days prior to the proposed general meeting of the Company considering such winding up, such notice to be accompanied by the subscription price for the Shares in respect of which the notice is given, whereupon the grantee will be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election. Subject to the above, an option will lapse automatically (to the extent not exercised) on the date of commencement of the winding up of the Company.

(m) Ranking of Shares

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the articles of association of the Company for the time being in force and will rank *pari passu* with the other fully-paid Shares in issue on the date of exercise of the option and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of exercise of the option other than any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise of the option.

(n) Period of the Proposed Share Option Scheme

Unless terminated by the Company by resolution in general meeting, the Proposed Share Option Scheme shall be valid and effective for a period of 10 years commencing on the date on which the Proposed Share Option Scheme becomes unconditional.

(o) Alteration of the Proposed Share Option Scheme

The Proposed Share Option Scheme may be altered in any respect by resolution of the Board except that any material alteration to its terms and conditions, any change to the terms of options granted (except for changes which automatically take effect under the existing terms of the proposed Share Option Scheme) and the matters contained in Rule 17.03 of the Listing Rules shall not be altered to the advantage of the grantees or the prospective grantees without the prior sanction of any ordinary resolution of the Company in general meeting. The amended terms of the Proposed Share Option Scheme or the options must still comply with the relevant requirements under Chapter 17 of the Listing Rules. Any change to the authority of the directors or scheme administrators (if applicable) in relation to any alteration to the terms of the Proposed Share Option Scheme must be approved by the shareholders of the Company in general meeting.

(p) Effect of alterations to capital

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable or the Proposed Share Option Scheme remains in effect, and such event arises from a capitalization issue, rights issue, consolidation, subdivision or reduction of the share capital of the Company, such corresponding alterations (if any) confirmed by the auditors for the time being of or an independent financial adviser to the Company that such adjustments satisfy the requirement that they give a participant the same proportion (or rights in respect of the same proportion) of the equity capital as that to which that person was previously entitled will be made to the number of Shares the subject matter of the Proposed Share Option Scheme or the option so far as unexercised and/or the subscription price and/or the maximum number of shares referred to in the paragraph headed "Maximum number of Shares" provided that (i) any such adjustment shall be made on the basis that the aggregate subscription price payable by a grantee on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event; (ii) no such adjustment shall be made the effect of which would be enable a Share to be issued at less than its nominal value; (iii) no such adjustment shall be made the effect of which would be to increase the proportion of the issued share capital of the Company for which any grantee would have been entitled to subscribe had he exercised all the options held by him immediately prior to such adjustment; and (iv) the issue of securities of the Company as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustment. In addition, in respect of any such adjustments, other than any made on a capitalization issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

(q) Cancellation of options

The Board may affect the cancellation of any options granted but not exercised on such terms as may be agreed with the relevant grantee, as the Board may in its absolute discretion see fit and in a manner that complies with all applicable legal requirements for cancellation. Where the Company cancels any options granted and offers to grant or grants new options to the same grantee, the offer or grant of such new options may only be made under the Proposed Share Option Scheme if there is available unissued options (excluding the cancelled options) within each of the limits as referred of in paragraph (c) above.

(r) Conditions of the Proposed Share Option Scheme

The Proposed Share Option Scheme is conditional on (A) the passing of an ordinary resolution by the Shareholders at a general meeting to approve the termination of the 2002 Scheme, to approve and adopt the Proposed Share Option Scheme, and to authorise the Directors to grant options to subscribe for Shares thereunder and

to allot, issue and deal with the Shares pursuant to the exercise of any options granted under the Proposed Share Option Scheme; and (B) the Listing Committee of the Stock Exchange granting approval to the listing of, and permission to deal on the Main Board in (i) the Shares in issue; (ii) any Shares, representing not more than 10% of the total issued share capital of the Company as at the date of Extraordinary General Meeting, which may be issued upon the exercise of any options which were granted under the 2001 Scheme or have been or may be granted under the 2002 Scheme prior to its termination upon listing on the Main Board, or which may be issued upon the exercise of any options which may be granted under the Proposed Share Option Scheme or any other share option scheme of the Company; and (C) the commencement of dealing in the Shares on the main board of the Stock Exchange.

(s) Termination of the Proposed Share Option Scheme

The Company may by resolution in general meeting terminate the operation of the Proposed Share Option Scheme and in such event no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with the provisions of the Proposed Share Option Scheme. Details of the options granted, including options exercised or outstanding, under the Proposed Share Option Scheme and (if applicable) options that become void or non-exercisable as a result of the termination must be disclosed in the circular to shareholders seeking approval of the first new scheme to be established after such termination.

(t) Status of the Listing Rules

The Proposed Share Option Scheme shall comply with the Listing Rules as amended from time to time. In the event that there are differences between the terms of the Proposed Share Option Scheme and the Listing Rules, the Listing Rules shall prevail.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association of the Company as restated and amended on 30 January 2001 states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in appendix VI to this document.

2. ARTICLES OF ASSOCIATION

The Proposed Articles of Association of the Company to be adopted at the Extraordinary General Meeting 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 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 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. Adequate voting rights, will, in appropriate circumstances, be secured to preference shareholders. 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.

(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 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 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 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 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 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 and regulations applicable to it, the Company may give financial assistance for the purpose of or in connection with a purchase or acquisition by any person of Shares or warrants in the Company or any subsidiary or holding company of it.

(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 meeting of the board of Directors 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 or any of his associates 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 or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them 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 or any of his associates has himself/ themselves 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 or any of his associates is/are or is/are 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 or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his or their 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 the Director or any of his associates 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, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
 - (vi) any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their 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 following general meeting of the Company (in the case of filling a casual vacancy) or until the next annual general meeting of the Company (in the case of an addition to the Board) and shall then be eligible for re-election at that meeting.

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, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and

ending no later than seven days prior to the date of such 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 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 Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation, such that each Director (including those appointed for a specific term) will be subject to retirement by rotation at least once every three years at the annual general meeting. 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 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 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 or duly authorised representative) 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 in the case of a corporation by its duly authorised representative) 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.

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 of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share 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 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.

In contrast, an “ordinary resolution” is defined in the 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 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 share registered in his name in the register of members of the Company.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting for or against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

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 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 or otherwise required under the Listing Rules. 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 in the case of a corporation, by its duly authorised representative) or by proxy and entitled to vote; or
- (c) any member or members of the Company present in person (or in the case of a corporation by its duly authorised representative), 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
- (d) any member or members of the Company present in person (or in the case of a corporation, by its duly authorised representative), 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 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. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send 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 auditors shall audit the profit and loss account and balance sheet of the Company in each year and shall prepare a report thereon to be annexed thereto. 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 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 per cent. 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;
- (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 per cent. (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 which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

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 share 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.

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. Subject to the matters referred to in this section and provisions of the Articles of Association of the Company, fully paid shares shall be free from any restriction on transfer (except as permitted by the Stock Exchange) and shall also be free from Company liens and the transfer of shares will be registered by the Company.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, 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. Share Certificates

Every certificate for shares or debentures or representing any other form of security of the Company shall be issued under the seal of the Company, which shall only be affixed with the authority of the Board.

Subject to the Listing Rules, the Board may issue warrants to subscribe for any class of shares or other securities of the Company on such terms as it may from time to time determine. No warrants shall be issued to bearer for so long as a recognized clearing house (in its capacity as such) is a member of the Company. Where warrants are issued to bearer, no new warrant shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original has been destroyed and the Company has

received an indemnity in such form as the Board shall think fit with regard to the issue of any such new warrant.

M. Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the 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.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price, and if purchases are by tender, tenders shall be available to all shareholders alike.

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

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

O. Dividends and other methods of distributions

Subject to the Companies Law and 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 Board may, if it thinks fit, receive from any member willing to advance the same, and either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the moneys so advanced the Company may pay interest at such rate (if any) as the Board may decide. The Board may at any time repay the amount so advanced upon giving to such member not less than one month's notice in writing of its intention in that behalf, unless before the expiration of such notice the amount so advanced shall have been called

up on the shares in respect of which it was advanced. No such sum paid in advance of calls shall entitle the member paying such sum to any portion of a dividend declared in respect of any period prior to the date upon which such sum would, but for such payment, become presently payable.

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.

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 sum 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.

P. 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, provided that it shall enable a member, according to his intention, to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. 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.

Q. 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.

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 cent. 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 cent. 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.

R. 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, (or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association) 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.

S. 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 in the case of a corporation, by its duly authorised representative) 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 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.

T. Rights of minorities in relation to fraud or oppression

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

U. 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.

V. Untraceable members

The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered.

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 (or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association), 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.

W. Notices

Any notice or document may be served by the Company and any notices may be served by the Board on any member either personally or by sending it through the post in a prepaid letter addressed to such member at his registered address as appearing in the register or, to the extent permitted by the Listing Rules and all applicable laws and regulations, by electronic means by transmitting it to any electronic number or address or website supplied by the member to the Company or by placing it on the Company's Website provided that the Company has obtained the member's prior express positive confirmation in writing to receive or otherwise have made available to him notices and documents to be given or issued to him by the Company by such electronic means, or (in the case of notice) by advertisement published in the newspapers. In the case of joint holders of a share, all notices shall be given to that holder for the time being whose name stands first in the register/any one of the joint holders and notice so given shall be sufficient notice to all the joint holders.

A member who has not given an express positive confirmation in writing to the Company to receive or otherwise have made available to him notices and documents to be given or issued to him by the Company by electronic means shall be entitled to have notice served on him at any address within Hong Kong.

Nothing in the Articles of Association shall be construed as prohibiting the Company from sending, or entitling the Company not to send, notices or other documents of the Company to any member whose registered address is outside Hong Kong.

This is an explanatory statement to provide all Shareholders with requisite information relating to the Repurchase Resolution to be proposed at the EGM authorising the Share Repurchase Mandate.

This explanatory statement contains all the information required pursuant to Rule 10.06 of the Main Board Listing Rules which is set out as below:

1. EXERCISE OF THE SHARE REPURCHASE MANDATE

On the basis of 443,285,408 Shares in issue as at the Latest Practicable Date and assuming the number of Shares in issue remains unchanged up to the date of the EGM, the exercise in full of the Share Repurchase Mandate could accordingly result in up to 44,328,540 Shares being repurchased by the Company during the period until (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws of the Cayman Islands to be held; or (iii) the passing of an ordinary resolution by the Shareholders in general meeting revoking or varying the authority given to the Directors by the relevant resolutions, whichever occurs first.

2. REASONS FOR REPURCHASES

The Directors believe that the Shares Repurchase Mandate is in the best interests of the Company and its Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of the Company and/or its earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and its Shareholders.

3. FUNDING OF REPURCHASES

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association and the applicable laws and regulations of the Cayman Islands. The Company may not purchase securities on the Stock Exchange 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.

4. EFFECT ON WORKING CAPITAL AND GEARING POSITION

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the listing document of the Company in connected with the Introduction which is enclosed with this circular) in the event that the Share Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Share Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements or the gearing levels of the Company which in the opinion of the Directors are from time to time appropriate for the Company.

5. SHARE PRICES

The highest and lowest prices at which the Shares have been traded on the GEM during each of the previous twelve months before the Latest Practicable Date and during the period from 1 April 2004 to the Latest Practicable Date were as follows:

	Shares	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
May 2004	2.950	2.125
June 2004	2.800	2.500
July 2004	2.650	2.325
August 2004	2.400	2.200
September 2004	2.375	1.920
October 2004	2.225	1.980
November 2004	2.325	2,150
December 2004	2.275	1.930
January 2005	2.175	2.000
February 2005	2.050	1.840
March 2005	1.970	1.330
April 2005	1.610	1.490
May 2005	1.640	1.390
From 1 June 2005 to the Latest Practicable Date	1.560	1.530

6. UNDERTAKING

The Directors have undertaken to the Stock Exchange that they will exercise the Share Repurchase Mandate in accordance with the Main Board Listing Rules, the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules), have any present intention to sell any Shares to the Company under the Share Repurchase Mandate if such is approved by Shareholders and becomes effective.

No connected person (as defined in the Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company or its subsidiaries, or has undertaken not to do so, in the event that the Share Repurchase Mandate is approved by the Shareholders of the Company and becomes effective.

7. THE CODE

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 32 of the Hong Kong Code on Takeovers and Mergers ("Code"). As a result, a shareholder or a group of shareholders acting in concert (within the meaning under the Code), depending on the level of increase in the shareholders' interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory general offer in accordance with Rule 26 of the Code.

As at the Latest Practicable Date, Mr. Xu Shao Chun, who is the chairman, executive Director and a substantial shareholder of the Company, was deemed to be interested in 149,809,130 Shares (representing approximately 33.80% of the issued share capital of the Company). In the event that the Directors exercise in full the power to repurchase Shares in accordance with the terms of the Repurchase Resolution, then (if the present shareholdings otherwise remained the same) the deemed interest of Mr. Xu Shao Chun in the Company would be increased to approximately 37.55% of the issued share capital of the Company, and accordingly Mr. Xu Shao Chun will be obliged to make a mandatory offer under Rule 26 of the Code.

However, the Directors have no present intention to exercise the Share Repurchase Mandate to such an extent as would result in takeover obligations.

8. SHARES REPURCHASE MADE BY THE COMPANY

No repurchase of the Shares have been made by the Company in the previous six months, whether on the Stock Exchange or otherwise.

Kingdee

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

金蝶國際軟件集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code on Main Board: 268)

(Stock Code on GEM: 8133)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Kingdee International Software Group Company Limited (the “**Company**”) will be held at 4th level, Zone B, Block W1, Hi-Tech Industrial Park, Shenzhen, Guangdong Province, the People’s Republic of China on Monday, 11 July 2005 at 2:00 p.m. or any adjournment thereof for the purpose of considering and, if thought fit, passing the following resolutions nos. 1, 2, 3, 4 and 5 with or without modifications, as ordinary resolutions and the following resolution no. 6 as a special resolution:

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 on the main board of the Stock Exchange in, (i) the shares of HK\$0.10 each in the issued share capital of the Company (the “**Shares**”); and (ii) any Shares, representing not more than 10% of the total issued share capital of the Company as at the date of Extraordinary General Meeting, which may be issued upon the exercise of any options which were granted under the share option scheme adopted by the Company on 30 January 2001 (the “**2001 Scheme**”) or have been or may be granted under the share option scheme adopted by the Company on 26 April 2002 (the “**2002 Scheme**”) prior to its termination upon listing on the main board of the Stock Exchange, or, subject to the passing of resolution no. 2, any Shares which may be issued upon the exercise of any options which may be granted under the Proposed Share Option Scheme (as defined in resolution no. 2 set out in this notice) or any other share option schemes of the Company, the withdrawal (the “**Proposed Withdrawal**”) of the listing of the Shares on Growth Enterprise Market of the Stock Exchange (“**GEM**”) with effect from such date and time as the directors of the Company (the “**Directors**”) may designate be and is hereby approved; and any Director or the company secretary of the Company be and is hereby authorised generally to do all such acts and things for and on behalf of the Company as he/she may deem necessary, desirable or expedient in connection with the foregoing; and

NOTICE OF EGM

- (B) the reduction of the notice period required under Rule 9.19(3) of the Rules Governing the Listing of Securities on GEM (“**GEM Listing Rules**”) in connection with the Proposed Withdrawal to a minimum period of five clear business days (as defined under the GEM Listing Rules), commencing on the date on which the shareholders of the Company approve this resolution no. 1 be and is hereby approved.”
2. “**THAT** conditional upon (A) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal on the main board of the Stock Exchange in, (i) the Shares in the issued share capital of the Company; and (ii) any Shares, representing not more than 10% of the total issued share capital of the Company as at the date of Extraordinary General Meeting which, may be issued upon the exercise of any options which were granted under the 2001 Scheme or have been or may be granted under the 2002 Scheme prior to its termination upon the listing on the main board of the Stock Exchange, or which may be issued upon the exercise of any options which may be granted under the new share option scheme (the “**Proposed Share Option Scheme**”) (the rules of which are set out in the document marked “A” produced to this meeting and initialed by the Chairman of this meeting for the purpose of identification) or any other share option schemes of the Company, and (B) the commencement of dealing in the Shares on the main board of the Stock Exchange:
- (A) the Proposed Share Option Scheme be and is hereby approved and adopted by the Company and the board of Directors be and is hereby authorised to grant, at its absolute discretion, options to subscribe for Shares thereunder and to allot, issue and deal with any Shares pursuant to the exercise of the subscription rights under any option which may be granted under the Proposed Share Option Scheme and to do all such acts and things as it may in its absolute discretion consider necessary or expedient in connection therewith and to vote on any matter connected therewith notwithstanding that they or any of them may be interested in the same; and
- (B) the 2002 Scheme be and is hereby terminated with effect from the date on which the Proposed Share Option Scheme becomes unconditional and effective.”
3. “**THAT**:
- (A) subject to paragraph (C) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the share capital of the Company and to make or grant offers, arrangements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (B) the approval in paragraph (A) of this resolution shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

NOTICE OF EGM

- (C) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) by the Directors pursuant to the approval in paragraph (A) of this resolution, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) the grant or exercise of any option under any share option schemes of the Company or any other option scheme or similar arrangement for the time being adopted for the grant or issue of shares or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company in force from time to time; or (iv) the exercise of any subscription or conversion rights attaching to any warrants or any securities which are convertible into Shares issued by the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing this resolution and the authority pursuant to paragraph (A) of this resolution shall be limited accordingly;
- (D) For the purpose of this resolution, “Relevant Period” means the period from the date of passing this resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable law of the Cayman Islands to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution.

“Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by the Directors to holders of shares in the Company on the register on a fixed record date in proportion to their holding of shares (subject to such exclusion or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company); and

- (E) the general mandate to issue shares in the Company granted to the Directors pursuant to ordinary resolution no. 5(A) as set out in the notice of the annual general meeting of the Company held on 27 April 2005 be and is hereby revoked.”

NOTICE OF EGM

4. **“THAT:**

- (A) subject to paragraph (B) of this resolution, the exercise by the Directors during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase its shares on the Stock Exchange or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong (the “**Securities and Futures Commission**”) and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission, the Stock Exchange or of any other Stock Exchange or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and is hereby generally and unconditionally approved;
- (B) the aggregate nominal amount of shares of the Company authorised to be repurchased by the Company pursuant to the approval in paragraph (A) of this resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution and the authority pursuant to paragraph (A) of this resolution shall be limited accordingly;
- (C) for the purpose of this resolution, “Relevant Period” means the period from the date of passing this resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company, or any applicable law of the Cayman Islands to be held; and
 - (iii) the passing of an ordinary resolution by the shareholders of the Company in general meeting revoking or varying the authority given to the Directors by this resolution; and
- (D) the general mandate to repurchase shares in the Company granted to the Directors pursuant to resolution no. 5(B) as set out in the notice of the annual general meeting of the Company held on 27 April 2005 be and is hereby revoked.”

5. **“THAT** conditional upon resolutions nos. 3 and 4 set out in this notice being passed, the general mandate granted to the directors of the Company to allot, issue and deal with additional shares of the Company and to make or grant offers, agreements and options which might require the exercise of such powers pursuant to resolution no. 3 set out in this notice be and is hereby increased and extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to resolution no. 4 set out in this notice, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing this resolution.”

NOTICE OF EGM

SPECIAL RESOLUTION

6. “**THAT** conditional upon the listing of the Shares on the main board of the Stock Exchange, the articles of association contained in the document marked “B” produced to this meeting and initialled by the Chairman of this meeting for the purpose of identification be and are hereby 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, with effect from the date on which dealings in the Shares on the main board of the Stock Exchange first commence.”

By Order of the Board

KINGDEE INTERNATIONAL SOFTWARE GROUP COMPANY LIMITED

Xu Shao Chun

Chairman

Shenzhen, the PRC, 17 June 2005

Registered Office:

Ugland House
P.O. Box 309
George Town
Grand Cayman
Cayman Islands
British West Indies

Principal place of business in the PRC:

4th Level, Zone B, Block W1
Hi-Tech Industrial Park
Shennan Highway, Nanshan District
Shenzhen, Guangdong Province
The PRC

Notes:

- (i) A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, subject to the provision of the articles of association of the Company on a poll, vote on his/her/its behalf. A proxy need not be a member of the Company.
- (ii) In order to be valid, the proxy form (which must be duly completed and signed in accordance with the instructions printed thereon), together with the power of attorney or other authority (if any) under which it is signed (or a notarially certified copy of such power or authority), must be delivered to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof.
- (iii) Delivery of an instrument appointing a proxy should not preclude a member from attending and voting in person at the Meeting and in such event, the instrument appointing a proxy shall be deemed to be revoked.
- (iv) An Explanatory Statement containing further details regarding ordinary resolution no. 4 as required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange is set out in Appendix III of the circular dated 17 June 2005.