

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this document, 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 or any of your shares in Shanxi Central Pharmaceutical International Limited, you should at once hand this document 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.

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SHANXI CENTRAL PHARMACEUTICAL INTERNATIONAL LIMITED

正中藥業國際有限公司*

(incorporated in Bermuda with limited liability)

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

A notice convening the annual general meeting of Shanxi Central Pharmaceutical International Limited to be held at Plaza I-III, Lower Lobby, Novotel Century Hong Kong Hotel, 238 Jaffe Road, Wanchai, Hong Kong on Friday, 22 November, 2002 at 10:00 a.m. is set out on pages 51 to 53 in the 2002 Annual Report of the Company.

Whether or not you are able to attend the annual general meeting, you should read the notice, complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrars and transfer office in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the annual general meeting. Completion of the form of proxy and its return will not preclude you from attending and voting at the annual general meeting, if you so wish.

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LETTER FROM THE BOARD



SHANXI CENTRAL PHARMACEUTICAL INTERNATIONAL LIMITED 正中藥業國際有限公司*

(incorporated in Bermuda with limited liability)

Executive Directors:

Hou Li Ping
David Y.M. Shi
Luo Jian Xiang

Registered office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Non-executive Directors:

Chan Bo Ching
Ko Siu Shing, Patrick

Principal office in Hong Kong:

Rooms 3710-3714
Sun Hung Kai Centre
30 Harbour Road, Wanchai
Hong Kong

30 October, 2002

To the shareholders

Dear Sir or Madam,

TERMINATION OF EXISTING SHARE OPTION SCHEME, ADOPTION OF NEW SHARE OPTION SCHEME AND THE RENEWAL OF THE GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

INTRODUCTION

The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) announced certain amendments to Chapter 17 (share option schemes) of the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”) on 23 August, 2001, which came into effect on 1 September, 2001. The directors (the “**Directors**”) of Shanxi Central Pharmaceutical International Limited (the “**Company**”) would like to propose to the shareholders of the Company (the “**Shareholders**”) to consider, and if thought fit, passing an ordinary resolution to terminate the existing share option scheme and adopt a new share option scheme (the “**New Scheme**”). A summary of the principal terms of the New Scheme is set out in Appendix II to this circular.

TERMINATION OF THE EXISTING SHARE OPTION SCHEME AND ADOPTION OF THE NEW SCHEME

The board of Directors of the Company (the “**Board**”) considers that in order to enable the Group (as defined in the summary of the principal terms of the New Scheme) to attract and retain those Eligible Persons (as defined in the summary of the principal terms of the New Scheme) of appropriate qualifications and with the necessary experience to work for the Group and those having contributions or potential contribution to the development and growth of the Group, it is

* for identification only

LETTER FROM THE BOARD

important that the Group should provide them with an additional incentive by offering them an opportunity to obtain an ownership interest in the Company and to reward them for contributing to the long term success of the business of the Group. By granting options to the Eligible Persons on the terms of the New Scheme including, in particular, that there is no minimum period for which an option must be held before it can be exercised and the exercise price of the options will be determined on a fair basis, such Eligible Persons may exercise their options at any time within the Option Period (as defined in the summary of principal terms of the New Scheme) to acquire a monetary gain or ownership interest in the Company which may in turn provide a further incentive to them for advancing their performance. Accordingly, the Board proposes to recommend the Shareholders at the annual general meeting to approve the adoption of the New Scheme.

The New Scheme is conditional upon:-

1. the passing of the necessary resolutions by the Shareholders to approve and adopt the New Scheme; and
2. the Stock Exchange granting the approval of the listing of and permission to deal in shares (the “**Shares**”) representing 10% of the total issued share capital of the Company as at the date of annual general meeting to be issued by the Company pursuant to the exercise of options granted in accordance with the terms and conditions of the New Scheme.

Application will be made to the Stock Exchange for the approval of listing of and permission to deal in the Shares representing 10% of the total issued share capital of the Company as at the date of annual general meeting to be issued pursuant to the exercise of options to be granted under the New Scheme.

Under the existing share option scheme, the Company may by ordinary resolution in general meeting at any time terminate the operation of such scheme. As at the date hereof, no options have been granted or agreed to be granted under the existing share option scheme. An ordinary resolution will be proposed for the approval of the Shareholders at the annual general meeting to terminate the existing share option scheme and adopt the New Scheme.

The Board considers it inappropriate to value the options that can be granted under the New Scheme as various factors (such as option period, subscription price, any performance targets set and other relevant variables) necessary for valuation cannot be predicted or ascertained at the moment and may vary from case to case. Accordingly, any valuation based on assumptions would not be meaningful but would be misleading to the Shareholders.

GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES

At the last annual general meeting held on 31 October, 2001, the general mandates to issue new Shares of the Company and repurchase the Shares of the Company granted to the Directors were renewed. These mandates will expire at the conclusion of the forthcoming annual general meeting to be held on 22 November, 2002. Therefore, The Directors are seeking the passing of ordinary resolutions at the annual general meeting to give to the Directors new general mandates:

- (a) to allot, issue and otherwise deal with unissued Shares representing up to 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of passing such resolution;
- (b) to renew the repurchase mandate (the “**Repurchase Mandate**”) given to the Directors to purchase Shares with an aggregate nominal amount not exceeding 10 per cent. of the aggregate nominal amount of the issued share capital of the Company as at the date of passing such resolution; and

LETTER FROM THE BOARD

- (c) to increase the number of Shares to be issued and allotted under the general mandate referred to in item (a) above by an additional number representing such number of Shares repurchased under the Repurchase Mandate.

Under the Listing Rules, the Company is required to give to its Shareholders all information which is reasonably necessary to enable Shareholders to make an informed decision as to whether to vote for or against the resolution to renew the grant to the Directors of the Repurchase Mandate. This document is also prepared for such purpose. The explanatory statement required by the Listing Rules to be included in this document is set out in Appendix I below.

GENERAL MANDATE TO ISSUE SHARES

The Directors have no immediate plans to issue any new Shares other than the Shares which may fall to be issued under the New Scheme or any scrip dividend scheme which may be approved by the Shareholders.

PROXY ARRANGEMENT

A form of proxy for use at the forthcoming annual general meeting is enclosed with this circular. Shareholders should read, complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrars and transfer office in Hong Kong, Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting. Completion of the form of proxy and its return will not preclude you from attending and voting at the annual general meeting, if you so wish.

RECOMMENDATION

The Directors are of the opinion that the termination of the existing share option scheme and the adoption of the New Scheme and the granting of the general mandates to issue and repurchase Shares are in the best interests of the Company and the Shareholders as a whole and recommend all Shareholders vote in favour of the proposed resolutions at the annual general meeting.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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, there are no other facts the omission of which would make any statement contained in this circular misleading.

GENERAL

A copy of the New Scheme, this circular and the bye-laws of the Company are available for inspection during the normal business hours at the head office and principal place of business in Hong Kong of the Company from the date of this circular up to 14 November, 2002 (both days inclusive).

Yours faithfully,
for and on behalf of the Board
Hou Li Ping
Chairman

This Appendix serves as an explanatory statement, as required by the Listing Rules, to provide requisite information to you for your consideration of the proposed Repurchase Mandate

(i) Share Capital

As at 30 October, 2002, being the latest practicable date prior to the printing of this circular (the “**Latest Practicable Date**”), the issued share capital of the Company comprised 2,250,000,000 Shares of HK\$0.02 each.

Subject to the passing of the relevant ordinary resolution to approve the Repurchase Mandate, the Company would be allowed to repurchase up to a maximum of 225,000,000 Shares representing 10 percent of the issued share capital of the Company as at the Latest Practicable Date of HK\$0.02 each, on the basis that no further Shares will be issued or repurchased prior to the date of the forthcoming annual general meeting.

(ii) Reason for Repurchase

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

(iii) Funding of Repurchases

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the memorandum of association and bye-laws of the Company, the Listing Rules and the applicable laws of Bermuda.

An exercise of the Repurchase Mandate in full could have a material adverse impact on the working capital and gearing position of the Company compared with that as at 31 May, 2001, being the date of its last audited accounts. The Directors do not, however, intend to make any repurchase in circumstances that would have a material adverse impact on the working capital or gearing of the Company.

(iv) Share Prices

The highest and lowest prices at which the Shares have been traded on the main board of the Stock Exchange during each of the calendar months since October 2001 were as follows:

Share Prices	Highest HK\$	Lowest HK\$
2001		
October	0.460	0.405
November	0.425	0.385
December	0.405	0.380
2002		
January	0.405	0.365
February	0.405	0.360
March	0.380	0.335
April	0.375	0.315
May	0.370	0.315
June	0.340	0.285
July	0.305	0.048
August	0.083	0.031
September	0.059	0.036
October (up to the Latest Practicable Date)	0.044	0.029

(v) General Information

- (a) None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates, has any present intention to sell any Shares to the Company or any of its subsidiaries.
- (b) The Directors have undertaken to the Stock Exchange to exercise the Repurchase Mandate in accordance with the Listing Rules, the applicable laws of Bermuda and in accordance with the memorandum of association and bye-laws of the Company.
- (c) 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 the Hong Kong Code on Takeovers and Mergers (the "**Takeover Code**"). Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of his or their shareholding interest, could obtain or consolidate control of the Company and become obliged to make mandatory offer in accordance with Rule 26 of the Takeover Code in the event the Directors exercise the power to purchase Shares pursuant to the Repurchase Mandate.

As at the Latest Practicable Date, Healthlink International Inc. and parties acting in concert with it is interested in approximately 38.77 percent of the existing issued share capital of the Company. In the event that the Directors should exercise in full the power to repurchase Shares under the Repurchase Mandate, the shareholding of Healthlink International Inc. and parties acting in concert with it in the Company will be increased to approximately 43.07 percent of the issued share capital of the Company.

Such increase would give rise to an obligation on the part of Healthlink International Inc. and parties acting in concert with it to make a mandatory general offer for all the Shares not already held by Healthlink International Inc. and parties acting in concert with it under Rule 26 of the Takeover Code in the event that the Repurchase Mandate is exercised in full. However, the Directors have no intention to exercise the Repurchase Mandate to such extent which would give rise to such obligation under the Takeover Code.

- (d) No connected person (as defined in the Listing Rules) of the Company has notified the Company that he/she/it has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

(vi) Share Repurchase made by the Company

The Company had not purchased any of its Shares on the Stock Exchange during the year ended 31 May, 2002 and up to the Latest Practicable Date.

The following is a summary of the principal terms of the New Scheme to be adopted at the forthcoming annual general meeting.

(1) PURPOSE

The purpose of the New Scheme is to enable the Board (including independent non-executive directors) to grant options to selected Eligible Persons (as defined below) as incentive or rewards for their contribution or potential contribution to the Company and its subsidiaries (the “**Group**”).

(2) WHO MAY JOIN

The Board may, at its discretion, offer any person belonging to any of the following classes (the “**Eligible Persons**”):-

- i) any director (whether executive or non-executive, including any independent non-executive Director), employee (whether full time or part time) of, or any individual for the time being seconded to work for the Company and/or any of its subsidiary and/or any entity (“**Invested Entity**”) in which the Company and/or any of its subsidiary holds any equity interest either directly or indirectly;
- ii) any holder of legal and/or beneficial title of any securities issued by the Company and/or any subsidiary and/or any Invested Entity; and
- iii) any business or joint venture partner, contractor, subcontractor, agent, sub-agent of, any person or entity providing research, development and/or other technological support and/or advisory, consultancy, professional services to, any supplier of goods and/or services, customer or distributor of, the Company and/or any subsidiary and/or any Invested Entity either directly or indirectly

options to subscribe for such number of new Shares as the board may determine at an exercise price determined in accordance with paragraph 5 below. The basis of eligibility shall be determined by the Board from time to time on the basis of their contribution or potential contribution to the development and growth of the Group.

(3) MAXIMUM NUMBER OF SHARES

- (A) The maximum number of Shares issuable upon exercise of all options to be granted under the New Scheme and any other share option scheme of the Company (excluding options which have lapsed in accordance with the terms of the New Scheme or any other share option schemes) must not in aggregate exceed 10% of the total number of shares in issue as at the date of adoption of the New Scheme (equivalent to 225,000,000 Shares) (the “**Scheme Mandate Limit**”).

The Scheme Mandate Limit may be refreshed at any time by obtaining approval of the Shareholders in general meeting provided that the new limit under the refreshed Scheme Mandate Limit must not exceed 10% of the total number of shares in issue at the date of the Shareholders’ such approval. Options previously granted under the New Scheme or any other option schemes (including those exercised, outstanding, cancelled or lapsed) will not be counted for the purpose of calculating the limit as refreshed.

- (B) The Company may also by issue of a circular to the Shareholders and by obtaining separate approval of the Shareholders in general meeting, grant options beyond the Scheme Mandate Limit or, as the case maybe, the refreshed Scheme Mandate Limit referred to paragraph (A) above, provided the options in excess are granted only to Eligible Persons specifically identified by the Company before such approval is sought and from whom specific approval is then obtained. The circular must contain a generic description of the specified Eligible Persons who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Persons 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.
- (C) No option shall be granted under the New Scheme or any other share option schemes which would result in the aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company exceeding 30% of the Shares in issue.

(4) MAXIMUM NUMBER OF OPTIONS TO ANY ONE INDIVIDUAL

No option shall be granted to an Eligible Person which would cause the aggregate number of Shares already issued and to be issued upon exercise of options granted to such Eligible Person under the New Scheme and any other share option schemes of the Company (including cancelled, exercised and outstanding options) in any 12-month period up to the date on which the option is granted (the “**Date of Grant**”) exceeding 1% of the Shares in issue for the time being (the “**Individual Limit**”). Any further grant of options in excess of the Individual Limit may be made only with the separate approval of the Shareholders in general meeting with that Eligible Person and his associates abstaining from voting. The number and terms of the options to be granted (including the option price) shall be fixed before Shareholders’ approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the exercise price. The Company shall send a circular to the Shareholders and the circular must disclose the identity of the Eligible Persons, the number and terms of the options to be granted (and options previously granted to such Eligible Persons), the information required under rule 17.02(2)(d) and the disclaimer required under rule 17.02(4) of the Listing Rules.

(5) SUBSCRIPTION PRICE OF SHARES

The subscription price per Share payable on the exercise of an option as determined by the Board at its absolute discretion and notified to an Eligible Person provided always that it shall be at least the higher of (i) the closing price of the Shares on the Date of Grant; and (ii) the average closing price of the Shares for the five (5) business days immediately preceding the Date of Grant provided that the option price shall in no event be less than the nominal amount of one Share.

(6) GRANTING OPTIONS TO CONNECTED PERSONS

Each grant of an option to an Eligible Person who is a director, chief executive or substantial shareholder of the Company (or any of their respective associates) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of such option).

If a grant of options to a substantial shareholder of the Company or an independent non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of the options already granted and to be granted to such person under the New Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the Date of Grant:–

- (i) representing in aggregate more than 0.1% of the total number of Shares in issue; and
- (ii) having an aggregate value, based on the closing price of the Shares at each Date of Grant, if that date is not a business day, the business day immediately before, in excess of HK\$5 million,

such further grant of options must be approved by the Shareholders at a general meeting of the Company, with voting to be taken by way of a poll. All connected persons of the Company shall abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular which the Company is required to send to the Shareholders as mentioned below. The Company shall send a circular to the Shareholders which shall contain the following information:–

- (i) details of the number and terms of the options to be granted to each grantee, which must be fixed before shareholders' approval, and the date of board meeting for proposing such further grant should be taken as the Date of Grant for the purpose of calculating the subscription price;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a grantee of the option) as to voting; and
- (iii) information relating to any Directors who are trustees of the New Scheme or have a direct or indirect interest in the trustees;

and such information as required by the Listing Rules.

(7) RESTRICTIONS ON THE TIME OF GRANT OF OPTIONS

The Board shall not grant any option under the New Scheme after a price sensitive development concerning the Company or any subsidiary has occurred or a price sensitive matter concerning the Company or any subsidiary has been the subject of a decision until such price sensitive information has been published in the newspaper. In particular, during the period commencing one month immediately preceding the earlier of (a) the date of the board meeting (as such date is first notified to the Stock Exchange in accordance with paragraph 12 of its Listing Agreement) for the approval of the Company's interim or annual results; and (b) the deadline for the Company to publish its interim or annual results announcement under its Listing Agreement, and ending on the date of the results announcement, no option may be granted.

(8) RIGHTS ARE PERSONAL TO GRANTEE

An option shall be personal to the option holder and shall not be transferable or assignable and no option holder shall in any way sell, transfer, charge, mortgage, encumber or create any interest or trust in favour of any third party over or in relation to any option (save that the option holder may have the Shares to be issued on the exercise of his option to be registered in the name of a nominee holding in trust for him).

(9) TIME OF EXERCISE OF OPTION

Save as determined by the Board at its absolute discretion and provided in the offer of the grant of the relevant option, there is no general requirement that an option must be held for a minimum period before it can be exercised. The Date of Grant of any particular option is the date when the offer of which is accepted by the Eligible Person to whom the offer was made, together with a remittance in favour of the Company of HK\$10.00 by way of consideration is received by the Company, such date must be on or before the 28th day after the option is offered to the relevant grantee. The period during which an option may be exercised will be determined by the Board at its discretion, save that no option may be exercised more than 10 years after it has been granted (the “**Option Period**”). No option may be granted more than 10 years after the date of approval of the New Scheme (the “**Scheme Period**”), subject that the Company may, with the approval in general meeting of the Shareholders, terminate the New Scheme at any time following which no further grant of options shall be offered but in all other respects the rules of the New Scheme shall continue in full force and effect. Any options granted prior to such termination, including options exercised or outstanding under the New Scheme, shall continue to be valid and exercisable in accordance with the rules of the New Scheme.

(10) PERFORMANCE TARGET

Save as determined by the Board at its absolute discretion and provided in the offer of the grant of the relevant option, there is no performance target which must be achieved before any of the options can be exercised.

(11) RIGHTS ON CEASING TO BE AN ELIGIBLE PERSON AND DEATH

- (A) If an option holder who at the time of grant of an option to him qualified as an Eligible Person because he was a director or employee or any individual for the time being seconded to work for the Company and/or any subsidiary and/or any Invested Entity ceases to be an Eligible Person:
- (i) by reason of ill health, injury or disability or death, then he or his personal representative(s) may exercise his outstanding option within twelve (12) months after he so ceases or up to the expiration of the Option Period, whichever is earlier; or
 - (ii) by reason of retirement in accordance with his contract of employment or service, then he may exercise his outstanding option within three (3) months after he so ceases or, if the Board in its absolute discretion determine, within three (3) months after the date of his sixtieth (60th) birthday where the retirement takes effect prior to such date; or

- (iii) by reason of voluntary resignation or dismissal, or upon expiration of his term of directorship (unless immediately renewed upon expiration), or by termination of his employment or service in accordance with the termination provisions of his contract of employment or service by the relevant company otherwise than by reason of redundancy, then he may exercise his outstanding option within three (3) months he so ceases; or
 - (iv) on the grounds that he has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally or has committed any serious misconduct or has been convicted of any criminal offence, then his outstanding option shall lapse and determine automatically on, and will not in any event be exercisable on or after, the date of his ceasing to be an Eligible Person; or
 - (v) for any reason other than as described in paragraphs (i), (ii), (iii) or (iv) above, then his option which is exercisable at the date he so ceases may be exercised to the extent then exercisable within three (3) months of the date he so ceases and unless so exercised shall then lapse and determine.
- (B) If an option holder who at the time of grant of an option to him qualified as an Eligible Person because he was a holder of legal and/or beneficial title of any securities issued by any subsidiary and/or any Invested Entity ceases to be an Eligible Person:–
- (i) by reason that such option holder ceases to be a holder of any securities issued by the relevant member of the Group then his outstanding option shall lapse and determine on the date he so ceases; or
 - (ii) because the relevant member of the Group by reason of his holding of securities in which he qualified as an Eligible Person at the time the option was granted ceases to be a member of the Group, then he may exercise his outstanding option within three (3) months after he so ceases or up to the expiration of the Option Period, whichever is earlier; or
 - (iii) dies, then his personal representative(s) may exercise his outstanding option within twelve (12) months after his death or up to the expiration of the Option Period, whichever is earlier; or
 - (iv) has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally or has committed any serious misconduct or has been convicted of any criminal offence, then his outstanding option shall lapse and determine automatically on, and will not in any event be exercisable on or after, the date of the relevant court order, resolution, misconduct, conviction or the effective date of the relevant arrangements or composition (as the case may be).

- (C) If an option holder who at the time of grant of an option to him qualified as an Eligible Person because he was a business or joint venture partner, contractor, subcontractor, agent, sub-agent of, any person or entity providing research, development and/or other technological support and/or advisory, consultancy, professional services to, any supplier of goods and/or services, customer or distributor of, the Company and/or any subsidiary and/or any Invested Entity:–
- (i) has, in the absolute determination of the Board, committed any breach of contract entered into between such Eligible Person and the relevant member of the Group, then his outstanding option shall lapse and determine automatically on, and will not in any event be exercisable on or after, the date of the board's determination; or
 - (ii) has committed any act of bankruptcy or become insolvent or made any arrangements or composition with his creditors generally or committed any serious misconduct or been convicted of any criminal offence, then his outstanding option shall lapse and determine automatically on, and will not in any event be exercisable on or after, the relevant court order, resolution, misconduct or conviction or the effective date of the relevant arrangements or composition (as the case may be); or
 - (iii) for any reason other than as described in paragraphs (i) or (ii) above, then his option which is exercisable at the date he so ceases may be exercised to the extent then exercisable within three (3) months of the date he so ceases and unless so exercised shall then lapse and determine.

Provided always that in each case the Board in its absolute discretion may decide that such option or any part thereof shall not so lapse or determine subject to such conditions or limitations as they may decide.

(12) RIGHTS ON TAKEOVER

If, in consequence of any general offer made to all the Shareholders, other than the offeror and/or any person controlled by the offeror and/or any person acting in concert or connection with the offeror (including an offer made in the first instance on a condition such that, if it is satisfied, the offeror will have control of the Company) or otherwise, any person shall have obtained control of the Company, then the board shall as soon as practicable thereafter notify every option holder accordingly and each option holder (or his personal representative(s)) shall, subject to paragraph (9) above, be entitled to exercise at any time within the period of fourteen (14) days after such control has been obtained any option in whole or in part to the extent not already exercised.

(13) RIGHTS ON SCHEME OF ARRANGEMENT FOR THE COMPANY

If under the Companies Act 1981 of Bermuda, a compromise or arrangement between the Company and the Shareholders or the Company's creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to all option holders on the same date as it despatches the notice which is sent to each Shareholder or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon each option holder (or where permitted his personal representative(s)) may forthwith and until the expiry of the

period commencing with such date and ending with the earlier of the date falling two (2) calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the court of Bermuda be entitled to exercise his option, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the court of Bermuda and becoming effective. Upon such compromise or arrangement becoming effective, all options for the time being outstanding shall lapse except insofar as previously exercised under the rules of the New Scheme. The Company may thereafter require each option holder (or his personal representative(s)) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the option holder in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement. If for any reason such compromise or arrangement is not approved by the court of Bermuda (whether upon the terms presented to the court or upon any other terms as may be approved by such court) the rights of the option holders to exercise their respective options shall with effect from the date of the making of the Order by such court be restored in full and shall thereupon become exercisable (but subject to the other terms of the New Scheme) as if such compromise or arrangement had not been proposed by the Company and no claim shall lie against the Company or any of its officers for any loss or damage sustained by any option holder as a result of the aforesaid suspension.

(14) RIGHTS ON WINDING-UP

If notice is given of an extraordinary general meeting of the Company at which a resolution will be proposed of considering and, if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all option holders and thereupon each option holder (or his personal representative(s)) shall be entitled, at any time no later than two (2) business days prior to the proposed general meeting of the Company, to exercise any of his outstanding options in whole or in part to the extent not already exercised. Subject thereto, all options then outstanding shall lapse and determine on the commencement of the winding-up.

(15) LAPSE OF THE OPTIONS

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

- (i) the expiry of the Option Period;
- (ii) the date on which the option holder commits a breach of paragraph (8) above, if the Board shall exercise the Company's right to cancel the option;
- (iii) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraph (11) above; and
- (iv) the expiry of any of the relevant periods referred to in paragraph (13) & (14) above.

(16) RANKING OF SHARES

Shares allotted upon the exercise of an option for the time being outstanding shall not carry voting rights until completion of the registration of the option holder (or his nominee) as the holder thereof. If under the terms of a resolution passed or an announcement made by the Company prior to the date of exercise of an option, a dividend is to be or is proposed to be paid, or Shares are to be issued or proposed to be issued by way of the capitalization of profits or reserves or by

way of rights under an offer made pro rata, to the Shareholders on the register of members of the Company on a date prior to such date of exercise, the Shares to be issued upon such exercise will not rank for such dividend or such Shares. Subject as aforesaid, Shares allotted and issued upon the exercise of an outstanding option shall rank pari passu in all respects with the Shares in issue on the date of such exercise and will be subject to all the provisions of the bye-laws of the Company for the time being in force.

(17) EFFECT OF ALTERATIONS TO CAPITAL

In the event of consolidation, sub-division, capitalization, capital distribution and right issue, such adjustment to the number of Shares comprised in each option for the time being outstanding and/or the option price thereunder may be adjusted in such manner as the Board may deem appropriate subject to the receipt of a statement in writing from the auditors or an independent financial adviser appointed for this purpose, acting as experts and not as arbitrators, confirming to the Directors that the adjustments satisfy the requirements set out in Rule 17.03(13) of the Listing Rule, and that in their opinion the adjustment(s) proposed are fair and reasonable subject always that no such adjustment shall have the effect of rendering the option price payable upon the exercise of any option becoming less than the nominal amount of the Share, or altering the proportion of the equity capital of the Company to which the option holder is entitled after the adjustment(s) from that to which he was entitled prior to the adjustment(s) or increasing the aggregate subscription price payable on the exercise of any option in respect of the total number of Shares then comprised therein.

(18) ALTERATION OF THE NEW SCHEME

The Board may from time to time in its absolute discretion waive or amend such of the rules in the New Scheme as they deem desirable, provided that, except with the prior sanction of the Shareholders in general meeting, no alteration shall be made to the New Scheme extending the class of Eligible Persons, or altering to the advantage of option holders (present or future) any of the provisions relating to the matters governed by rule 17.03 of the Listing Rules provided always that:-

- (i) any amendment to any terms of the New Scheme which are of a material nature or any change to the options granted must be approved by Shareholders in general meeting except where the alterations take effect automatically under the existing terms of the New Scheme;
- (ii) any change to the authority of the Board in relation to any alteration to the terms of the New Scheme must be approved by Shareholders in general meeting;
- (iii) any amendment to any terms of the New Scheme or the options shall comply with the relevant requirements of Chapter 17 of the Listing Rules.

(19) CANCELLATION OF OPTIONS

Following the cancellation of any options granted but not exercised, new options may only be granted to the same option holder under the New Scheme with available unissued options (excluding the cancelled options) within the limit of the Scheme Mandate Limit then available to the board.

(20) TERMINATION OF THE NEW SCHEME

The Company may, with the approval in general meeting of the Shareholders, terminate the New Scheme at any time following which no further grant of options shall be offered but in all other respects the rules of the New Scheme shall continue in full force and effect. Any options granted prior to such termination, including options exercised or outstanding under the New Scheme, shall continue to be valid and exercisable in accordance with the rules of the New Scheme.

(21) CONDITION OF THE ADOPTION OF THE NEW SCHEME

The New Scheme is conditional upon (i) the Stock Exchange granting the approval of the listing of, and permission to deal in, any Shares representing 10% of the total issued share capital of the Company as at the date of annual general meeting to be issued by the Company pursuant to the exercise of the options granted in accordance with the terms and conditions of the New Scheme, and (ii) the passing of the necessary resolutions by the Shareholders to approve and adopt the New Scheme.

(22) DISCLOSURE IN ANNUAL AND INTERIM REPORTS

The Company will disclose details of the New Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period, vesting period and (if appropriate) a valuation of positions granted during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

(23) PRESENT STATUS OF THE NEW SCHEME

Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares representing 10% of the total issued share capital of the company as at the date of annual general meeting which may fall to be issued pursuant to the exercise of the options granted under the New Scheme.

(24) VALUE OF ALL OPTIONS THAT CAN BE GRANTED UNDER THE NEW SCHEME

The Board considers that it is not appropriate or helpful to Shareholders to state the value of all options that can be granted pursuant to the New Scheme as if they had been granted at the Latest Practicable Date. The Board believes that any statement regarding the value of the options as at the Latest Practicable Date will not be meaningful to the Shareholders, since the options to be granted shall not be assignable, and no holder of the option shall in any way sell, transfer, charge, mortgage or create any interest (legal or beneficial) in favour of any third party over or in relation to any option.

In addition, the calculation of the value of the options is based on a number of variables such as the exercise price, the exercise period, interest rate, expected volatility and other relevant variables. The Board believes that any calculation of the value of the options as at the Latest Practicable Date based on a great number of speculative assumptions would not be meaningful and would be misleading to the Shareholders.