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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

**If you have sold or transferred** all your shares in South Sea Holding Company Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or transferee.

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



**South Sea Holding Company Limited**

**南海控股有限公司 \***

*(Incorporated in Bermuda with limited liability)*

**PROPOSED TERMINATION OF THE  
EXISTING SHARE OPTION SCHEME AND  
ADOPTION OF A NEW SHARE OPTION SCHEME**

**AND**

**GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES**

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A notice convening a special general meeting of the Company to be held at Chater Room III, Function Room Level, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Thursday, 29 August 2002 at 10:15 a.m. (or so soon thereafter as the Annual General Meeting of the Company convened for the same place and date at 10:00 a.m. shall have been concluded or adjourned) is set out on pages 18 to 21 of this circular. A form of proxy is also enclosed. Whether or not you are able to attend and vote at the special general meeting, you are requested to complete the enclosed form of proxy and return it to the share registrar of the Company in Hong Kong, Abacus Share Registrars Limited at 5/F., Wing On Centre, 111 Connaught Road Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the special general meeting. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the special general meeting or any adjourned meetings should you so wish.

31 July 2002

\* for identification purpose only.

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## CONTENTS

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	<i>Page</i>
<b>Responsibility Statement</b> .....	ii
<b>Definitions</b> .....	1
<b>Letter from the Board</b>	
Introduction .....	4
The New Share Option Scheme .....	4
Application for Listing .....	6
Reasons for adopting the New Share Option Scheme .....	6
General Mandates to Issue and Repurchase Shares .....	6
Special General Meeting .....	7
Recommendation .....	7
General information .....	7
<b>Appendix I – The Principal Terms of the New Share Option Scheme</b> .....	8
<b>Appendix II – Explanatory Statement</b> .....	15
<b>Notice of Special General Meeting</b> .....	18

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## **RESPONSIBILITY STATEMENT**

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This document includes particulars given in compliance with the 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 document 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 herein misleading.

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## DEFINITIONS

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

“associates”	has the same meaning ascribed in the Listing Rules
“Board”	the board of Directors
“Companies Act”	the Companies Act 1981 of Bermuda
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	South Sea Holding Company Limited, an exempted company incorporated in Bermuda with limited liability, the securities of which are listed on the Stock Exchange
“Connected Person”	has the same meaning ascribed in the Listing Rules
“Directors”	directors of the Company
“Eligible Employee”	means any employee (whether full time or part time employee, including any executive directors but not any non-executive director) of the Company, its Subsidiaries or any Invested Entity
“Eligible Grantees”	any persons who are eligible for granting Options under the Existing Share Option Scheme
“ Existing Mandates”	general mandates to issue & repurchase securities of the Company granted to the Directors at the special general meeting of the Company held on 30 April 2002
“Existing Share Option Scheme”	the existing share option scheme of the Company which was adopted by the Company on 8 January 2001 and expiring on 7 January 2011 and which is to be terminated upon the adoption of the New Share Option Scheme
“General Scheme Limit”	the total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option scheme of the Group and which must not in aggregate exceed 10 per cent. of the Shares in issue as at the date of approval of the New Share Option Scheme
“Group”	the Company and its Subsidiaries
“HK\$” and “cents”	Hong Kong dollars and cents, the lawful currency in Hong Kong

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## DEFINITIONS

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“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Invested Entity”	any entity in which any member of the Group holds any equity interest
“Latest Practicable Date”	26 July 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Share Option Scheme”	the share option scheme proposed to be adopted by the Company at the SGM, a summary of the principal terms of which is set out in the Appendix I
“Option”	options granted to the Eligible Grantees under the Existing Share Option Scheme (if any) or the Participants under the New Share Option Scheme, as the context requires
“Ordinary Resolution”	the ordinary resolution to be proposed at the SGM for the termination of the existing share option scheme and adoption of a new share option scheme
“Participants”	means any person belonging to any of the following classes of participants: <ul style="list-style-type: none"><li>(a) any Eligible Employee;</li><li>(b) non-executive director (including independent non-executive directors) of the Company, any of its Subsidiaries or any Invested Entity;</li><li>(c) any supplier of goods or services to any member of the Group or any Invested Entity;</li><li>(d) any customer of the Group or any Invested Entity;</li><li>(e) any person or entity that provides research, development or technological support or other services to the Group or any Invested Entity;</li><li>(f) any shareholder or 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</li></ul>

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## DEFINITIONS

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	(g) any ex-employee who has contributed or may contribute to the development and growth of the Group and any Invested Entity.
“Repurchase Resolution”	the resolution to be proposed at the SGM for the granting to the Directors of a general mandate to repurchase shares of the Company
“Share(s)”	ordinary share(s) of HK\$0.01 each in the capital of the Company or if there has been a sub-division, consolidation, reclassification of or reconstruction of the share capital of the Company, shares forming part of the ordinary equity share capital of the Company
“Shareholder(s)”	registered holder(s) of Share(s)
“SGM”	the Special General Meeting of the Company to be held at Chater Room III, Function Room Level, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Thursday, 29 August 2002 at 10:15 a.m. (or so soon thereafter as the Annual General Meeting of the Company convened for the same place and date at 10:00 a.m. shall have been concluded or adjourned), notice of which is set out on pages 18 to 21 of this circular
“SGM Notice”	the notice of the SGM to be despatched to the Shareholders together with this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiary”	a subsidiary for the time being of the Company (within the meaning of Section 2 of the Companies Ordinance, whether incorporated in Hong Kong or elsewhere)

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## LETTER FROM THE BOARD

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### South Sea Holding Company Limited

南海控股有限公司 \*

*(Incorporated in Bermuda with limited liability)*

*Directors:*

YU Pun Hoi (*Chairman*)  
ZHANG Hong Ren  
ZHAO Liang  
# YU Lin Hoi  
# LAM Bing Kwan  
\* NG Kwan Lik  
\* Francisco P. ACOSTA

# *Non-executive Directors*

\* *Independent Non-executive Directors*

*Principal place of business:*

Room 601-4, 6/F  
Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

*Registered office:*

Cedar House  
41 Cedar Avenue  
Hamilton HM12  
Bermuda

31 July 2002

*To the Shareholders*

Dear Sir or Madam,

**PROPOSED TERMINATION OF THE  
EXISTING SHARE OPTION SCHEME AND  
ADOPTION OF A NEW SHARE OPTION SCHEME**

**AND**

**GENERAL MANDATES TO ISSUE AND REPURCHASE SHARES**

**INTRODUCTION**

The purpose of this circular is to provide you with information in respect of the ordinary resolutions to be proposed at the SGM for the approval of the adoption of the New Share Option Scheme and the termination of the Existing Share Option Scheme, and for the granting of the general mandates to issue and repurchase shares.

**THE NEW SHARE OPTION SCHEME**

On 23 August 2001, the Stock Exchange has announced amendments to Chapter 17 of the Listing Rules, which has come into effect on 1 September 2001. In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange, the Board considers that it is in the interest of the Company to terminate the Existing Share Option Scheme and to adopt the New Share Option Scheme which allows wider classes of person or

\* *for identification purpose only*

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## LETTER FROM THE BOARD

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entity to be the participants and contains terms as are in compliance with the requirements of the Chapter 17 of the Listing Rules now in force. Under the provisions of the Existing Share Option Scheme, termination shall be by way of passing an ordinary resolution in the general meeting of the Company and such termination is not subject to any conditions.

At the SGM, an ordinary resolution will be proposed for the Company to approve the adoption of the New Share Option Scheme for the Participants pursuant to which the Participants may be granted options to subscribe for Shares upon and subject to the terms and conditions of the rules of the New Share Option Scheme.

A summary of the principal terms of the rules of the New Share Option Scheme which is proposed to be approved and adopted by the Company at the SGM is set out in the Appendix I to this circular. A copy of the rules of the New Share Option Scheme is available for inspection at the principal place of business of the Company at Room 601-4, 6/F., Bank of America Tower, 12 Harcourt Road, Central, Hong Kong during normal business hours from the date hereof up to and including 29 August 2002.

On 8 January 2001, the Company adopted the Existing Share Option Scheme for the Eligible Grantees pursuant to which options to subscribe for an aggregate of up to ten per cent. of the issued share capital of the Company from time to time. As at the Latest Practicable Date, the issued share capital of the Company is 29,931,804,183 Shares. Under the Existing Share Option Scheme, the Company can grant Options to subscribe up to 2,993,148,668 Shares to the Eligible Grantees, representing ten per cent. of the issued share capital of the Company without taking into account any Shares issued and allotted pursuant to the exercise of options granted. As at the Latest Practicable Date, the Directors have not granted any Options under the Existing Share Option Scheme.

The New Share Option Scheme is conditional upon:

- (i) the passing of an ordinary resolution at the SGM approving the adoption of the New Share Option Scheme and the termination of the Existing Share Option Scheme; and
- (ii) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in any new Shares which may fall to be allotted and issued upon the exercise of the subscription rights attaching to the options that may be granted under the New Share Option Scheme and up to the General Scheme Limit.

The Existing Share Option Scheme will be terminated on the date when the New Share Option Scheme coming into effect upon the fulfillment of the conditions set out above. Upon termination of the Existing Share Option Scheme, no further options will be granted thereunder. As at the Latest Practicable Date, the Company has not granted any Options under the Existing Share Option Scheme.

The Directors consider that it is not appropriate to state the value of all the Options that can be granted under the New Share Option Scheme as if they had been granted at the Latest Practicable Date prior to the approval of the New Share Option Scheme given that the variables which are critical for the calculation of the value of such Options cannot be determined. The variables which are critical for the determination of the value of such Options include, the subscription price for the Shares upon the exercise of the subscription rights attaching to the Options, whether or not Options will be granted under the New Share Option Scheme and the timing of the granting of such Options, the period during which the subscription rights may be exercised, the discretion of the Board to impose any performance target that has to be achieved before the subscription right attaching to the Options can be exercised and any other conditions



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## **LETTER FROM THE BOARD**

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that the Board imposed on the Options and whether or not such Options if granted will be exercised by the Eligible Grantees. The subscription price payable for the Shares depends on the price of the Shares as quoted on the Stock Exchange, which in turn depends on when the Board is to grant Options under the New Share Option Scheme. With a scheme life of ten years, the Board is of the view that it is too premature to state whether or not Options will be granted under the New Share Option Scheme, and if so, the number of Options that may be granted. It is also difficult to ascertain with accuracy the subscription price of the Shares given the volatility the Share price may be subject to during the 10-year life span of the New Share Option Scheme. In the premises, the Directors are of the view that the value of the Options depends on a number of variables which are either not difficult to ascertain or can only be ascertained subject to a number of theoretical basis and speculative assumptions. Accordingly, the Directors believed that any calculation of the value of the Options will not be meaningful and may be misleading to Shareholders in the circumstances.

### **APPLICATION FOR LISTING**

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of any Options that may be granted under the New Share Option Scheme and up to the General Scheme Limit.

### **REASONS FOR ADOPTING THE NEW SHARE OPTION SCHEME**

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

The New Share Option Scheme permits the Company to grant Options to a wider category of Participants, and not just the Eligible Grantees as under the Existing Share Option Scheme. Under the rules of the New Share Option Scheme, the Board has discretion to set a minimum period for which an Option has to be held before the exercise of the subscription rights attaching thereto. This discretion allows the Board to provide incentive to a Participant to remain as a Participant during the minimum period and thereby enable the Group or the relevant Invested Entity to continue to benefit from the services of such Participant during such period. This discretion, couple with the power of the Board to impose any performance target as it consider appropriate before any Option can be exercised, enable the Group to provide incentives to the Participants to use their best endeavors in assisting the growth and development of the Group. Although the New Share Option Scheme does not provide for the granting of Options with right to subscribe for Shares at a discount to the trading price of the Shares on the Stock Exchange, the Directors are of the view that the flexibility given to the Board in granting Options to Participants, other than the Eligible Grantees and to impose minimum period for which the Options have to be held and performance targets that have to be achieved before the Options can be exercised, will place the Group in a better position to attract human resources that are valuable to the growth and development of the Group as whole, than the Existing Share Option Scheme.

### **GENERAL MANADATES TO ISSUE AND REPURCHASE NEW SHARES**

At the special general meeting of the Company held on 30 April 2002, general mandates to issue and repurchase securities of the Company were granted to the Directors.

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## LETTER FROM THE BOARD

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At the SGM, ordinary resolutions will be proposed to grant to the Directors the general mandates, in substitution for the Existing Mandates, to:

- (i) allot, issue or otherwise deal with Shares or convertible securities up to a maximum of 20% of the aggregate nominal amount of the issued share capital of the Company as at the date of passing of the resolution;
- (ii) repurchase on the Stock Exchange 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 of the resolution; and
- (iii) add to the general mandate given to the Directors under sub-paragraph (i) above any Shares repurchased pursuant to the general mandate under sub-paragraph (ii) above up to 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of the resolution.

The explanatory statement required by the Listing Rules to be sent to the Shareholders in connection with the proposed general mandate to repurchase securities is set out in the Appendix II to this circular. It contains all the information reasonably necessary to enable the Shareholders to make an informed decision on whether to vote for or against the relevant resolutions at the SGM.

### **SPECIAL GENERAL MEETING**

The Directors have resolved to convene the SGM to consider and if thought fit by the Shareholders, to approve the proposed ordinary resolutions as set out in the SGM Notice on pages 18 to 21 of this circular. Whether or not you are able to attend and vote at the SGM, you are requested to complete the enclosed form of proxy and return it to the share registrar of the Company in Hong Kong, Abacus Share Registrars Limited at 5/F., Wing On Centre, 111 Connaught Road Central, Hong Kong as soon as practicable, and in any event not less than 48 hours prior to the time appointed for the holding the SGM. Completion and return of the form of proxy will not preclude you from subsequently attending and voting in person at the SGM or any adjourned meetings should you so wish.

### **RECOMMENDATION**

Having considered the reasons set out herein, the Directors consider that the proposed ordinary resolutions for the adoption of the New Share Option Scheme and termination of the Existing Share Option Scheme and for the granting of general mandates for Directors to issue and repurchase Shares are in the interests of the Company, and in particular, the Group as a whole. The Directors therefore recommend all Shareholders to vote in favour of all proposed ordinary resolutions.

### **GENERAL INFORMATION**

Your attention is drawn to the additional information set out in the Appendices to this circular.

Yours faithfully,  
By order of the Board of  
**South Sea Holding Company Limited**  
**Yu Pun Hoi**  
*Director*

*This Appendix summaries the principal terms of the New Share Option Scheme.*

*(a) Purpose of the scheme*

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

*(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:

- (aa) any Eligible Employee;
- (bb) any non-executive director (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity;
- (cc) any supplier of goods or services to any member of the Group or any Invested Entity;
- (dd) any customer of the Group or any Invested Entity;
- (ee) any person or entity that provides research, development or other technological support or other services to the Group or any Invested Entity;
- (ff) any shareholder or 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
- (gg) any ex-employee who has contributed or may contribute to the development and growth of the Group and any Invested Entity,

and, for the purposes of the New 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 or any discretionary object of a Participant which is a discretionary trust.

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

*(c) Maximum number of Shares*

- (aa) The maximum number of Shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the New Share Option Scheme and any other share option scheme of the Company must not in aggregate exceed 30 per cent. of the issued share capital of the Company from time to time.
- (bb) The total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 2,993,180,418 Shares

(assuming no further issue of Shares from the Latest Practicable Date), being 10 per cent. of the Shares in issue as at the day of the passing of the relevant ordinary resolution for the New Share Option Scheme.

- (cc) Subject to (aa) above and without prejudice to (dd) below, the Company may seek approval of the Shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other share option scheme of the Company must not exceed 10 per cent. of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options previously granted (including those outstanding, cancelled, lapsed or exercised in accordance with the New Share Option Scheme and any other share option scheme of the Company) will not be counted.
- (dd) Subject to (aa) above, the Company may issue a circular to the Shareholders and seek separate Shareholders' approval in general meeting to grant Options beyond the General Scheme Limit or, if applicable, the limit referred to in (cc) above to Participants specifically identified by the Company before such approval is sought.

*(d) Maximum entitlement of each Participant*

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the New Share Option Scheme and any other share option scheme of the Company (including exercised, cancelled and outstanding options) to each Participant in any 12-month period shall not exceed 1 per cent. of the issued share capital of the Company in issue (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant, shall be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of the Company with such Participant and his associates abstaining from voting.

*(e) Grant of options to Connected Persons*

- (aa) Any grant of Options under the New Share Option Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options).
- (bb) 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) to such person in the 12-month period up to and including the date of such grant:
  - (i) representing in aggregate over 0.1 per cent. of the Shares in issue; and
  - (ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5,000,000,

such further grant of options must be approved by the Shareholders. The Company must send a circular to the Shareholders. All Connected Persons of the Company must abstain from voting at such general meeting, except that any Connected Person may vote against the relevant resolution at the general

meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll.

*(f) Time of acceptance and exercise of an option*

An offer of grant of an Option may be accepted by a Participant within 28 days from the date of the offer of grant of the Option. A consideration of HK\$1 is payable on acceptance of the offer of grant of an Option.

An Option may be exercised in accordance with the terms of the New Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer for the grant of Options is made but shall end in any event not later than 10 years from the date of grant of the Option subject to the provisions for early termination thereof and to the minimum period for which the Option has to be held before it can be exercised as the Directors may at their discretion determine. No minimum period for which the Option has to be held before it can be exercised is specified in the New Share Option Scheme.

*(g) Performance targets*

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

*(h) Subscription price for Shares*

The subscription price for Shares under the New Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotation sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotation sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of a Share. Without prejudice to the generality of the foregoing, the Directors may grant Options in respect of which the subscription price is fixed at different prices for each different period during the option period provided that the subscription price for Share for each of the different period shall not be less than the subscription price determined in the aforesaid manner.

*(i) Ranking of Shares*

- (aa) Shares allotted upon the exercise of an Option will be subject to all the provisions of the bye-laws of the Company and the Companies Act 1981 of Bermuda and will rank *pari passu* in all respects with the fully paid Shares in issue as from the day when the name of the grantee is registered on the register of members of the Company and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date when the name of the grantee is registered on the register of members of the Company other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be before the date when the name of the grantee is registered on the register of members of the Company, provided always that when the date of exercise of the Option falls on a day upon which the register of members of the Company is closed then the exercise of the Option shall become effective on the

first business day in Hong Kong on which the register of members of the Company is re-opened. A Share allotted upon the exercise of an Option shall not carry voting rights until the completion of the registration of the grantee as the holder thereof.

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

*(j) Restrictions on the time of grant of Options*

No offer for grant of Options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in the newspapers. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of the Directors for the approval of the Company’s interim or annual results, and (ii) the last date on which the Company must publish its interim or annual results announcement under its listing agreement with the Stock Exchange and ending on the date of the announcement of the results, no Option may be granted.

The Directors may not grant any Option to a Participant who is a Director during the periods or times in which Directors are prohibited from dealing in shares pursuant to the Model Code for Securities Transactions by Directors of Listed Companies prescribed by the Listing Rules or any corresponding code or securities dealing restrictions adopted by the Company.

*(k) Period of the New Share Option Scheme*

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

*(l) Rights on ceasing employment*

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

*(m) Rights on death*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason of his or her death before exercising the Option in full, his or her personal representative(s) may exercise the Option (to the extent which has become exercisable not already exercised) in whole or in part within a period of 12 months, following the date of death or such longer period as the Board may determine.

*(n) Rights on dismissal*

If the grantee of an option is an Eligible Employee and ceases to be an Eligible Employee by reason that he has been guilty of misconduct or has committed an act of bankruptcy or has become insolvent or has made any arrangements or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or (if so determined by the Board) on any ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to any applicable laws or under the Eligible Employee's service contract with the Company or the relevant Subsidiary or the relevant Invested Entity, his or her Option will lapse automatically on the date the Eligible Employee ceases to be an Eligible Employee.

*(o) Rights on breach of contract*

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

*(p) Rights on a general offer*

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

*(q) Rights on winding up*

In the event of an effective resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time no later than two business days prior to the date on which such resolution is passed, exercise his or her Option (to the extent which has become exercisable and not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the New Share Option Scheme and shall accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his or her Option, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the Shares in issue on the day prior to the date of the passing of the resolution to wind-up the Company. Subject to the above, an Option will lapse automatically (to the extent not exercised) on the date of the commencement of the winding-up of the Company.

*(r) Rights on compromise or arrangement between the Company and its creditors*

In the event of a compromise or arrangement between the Company and its creditors (or any class of them) or between the Company and its members (or any class of them), in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement, and thereupon any grantee (or his or her legal 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 calendar months thereafter and the date on which such compromise or arrangement is sanctioned by Court be entitled to exercise his or her Option (to the extent such which has become exercisable and not already exercised), but the exercise of the Option shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. The Company may thereafter require such grantee to transfer or otherwise deal with the Shares issued as a result of such exercise of his or her Option so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement. Subject to the above, an Option will lapse automatically on the date the proposed compromise or arrangement becomes effective.

*(s) Adjustments to the subscription price or number of securities*

In the event of capitalization issue, rights issue, sub-division or consolidation of shares or reduction of capital of the Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being or an independent financial adviser to the Company as fair and reasonable will be made to the number or nominal amount of Shares, subject to the New Share Option Scheme and the option so far as unexercised or the subscription price for Shares provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration and 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 alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (iii) no such adjustment will be required in circumstances whether there is an issue of Shares or other securities of the Group as consideration in a transaction. In addition, in respect of any such adjustments, other than any made on a capitalisation issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the Listing Rules.

*(t) Cancellation of Options*

Any cancellation of Options granted but not exercised must be approved by Shareholders in general meeting, with Participants and their associates abstaining from voting. Where the Company cancels options and issues new options to the same option holder, the issue of such new options may only be made under a scheme with available unissued options (excluding the cancelled options) within the limit approved by shareholders as mentioned in paragraph (c).

*(u) Termination of the New Share Option Scheme*

The Company may by resolution in general meeting at any time terminate the New Share Option Scheme and in such event no further Options shall be offered but in all other respects the provisions of the New Share Option Scheme shall remain in force to the



extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required in accordance with the provisions of the New Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the New Share Option Scheme.

*(v) Rights are personal to the grantee*

An Option is personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option. Any breach of the foregoing shall entitle the Company to cancel any outstanding Option or part thereof granted to such grantee.

*(w) Lapse of option*

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

- (aa) the expiry of the period referred to paragraph (f);
- (bb) the expiry of the periods or dates referred to in paragraphs (l), (m), (n), (o), (p) (q) and (r); and
- (cc) the date on which a breach of the provision restriction on transfer and assignment of an Option referred to in paragraph (v) is committed.

*(x) Others*

- (aa) The terms and conditions of the New Share Option Scheme relating to the matters set out in Rule 17.03 of the Listing Rules shall not be altered to the advantage of grantees of the Options except with the approval of the Shareholders in general meeting.
- (bb) Any alterations to the terms and conditions of the New Share Option Scheme which are of a material nature or any change to the terms of Options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the New Share Option Scheme.
- (cc) The amended terms of the New Share Option Scheme or the Options must still comply with the relevant requirements of Chapter 17 of the Listing Rules.
- (dd) Any change to the authority of the Directors or the scheme administrators in relation to any alteration to the terms of the New Share Option Scheme shall be approved by the Shareholders in general meeting.

*This is an explanatory statement, as required by the Listing Rules, to provide requisite information to you for your consideration of the proposal to permit the repurchase of shares of up to a maximum of 10 per cent. of the issued share capital of the Company as at the date of passing of the Repurchase Resolution. For the purpose of this explanatory statement, "shares" is defined in the Hong Kong Code on Share Repurchases to mean shares of all classes and securities which carry a right to subscribe or purchase shares.*

### **SHAREHOLDERS' APPROVAL**

The Listing Rules provide that all securities repurchases on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, which may be by way of a general mandate, or by a specific approval in relation to a specific transaction. All the shares proposed to be repurchased by the issuer are fully paid up.

The Company has previously sent to the Shareholders an Explanatory Statement complying with the provisions of rule 10.06(1)(b) of the Listing Rules.

### **SHARE CAPITAL**

As at the Latest Practicable Date, there were in issue an aggregate of 29,931,804,183 Shares. Subject to the passing of Repurchase Resolution and on the basis that no further shares will be issued and repurchased prior to the date of the SGM, exercise in full of the mandate will allow the Company to repurchase a maximum of 2,993,180,418 shares during the period ending on the earliest of the date of the next annual general meeting, the date by which the next annual general meeting of the Company is required to be held by law or the bye-laws of the Company and the date upon which such authority is revoked or varied by an ordinary resolution of the shareholders in a general meeting of the Company.

### **REASONS FOR REPURCHASE**

As at the Latest Practicable Date, the Directors have no intention to repurchase any shares but consider that the mandate will provide the Company the flexibility to make such repurchase when appropriate and beneficial to the Company. Such repurchases may enhance the net value of the Company and/or earnings per share of the Company. As compared with the financial position of the Company as at 31 March 2002 (being the date to which its latest audited accounts were made up), the Directors consider that there would be a material adverse impact on the working capital and on the gearing position of the Company in the event that the mandate granted pursuant to the passing of the Repurchase Resolution was to be exercised in full during the proposed repurchase period. No repurchase would be made in circumstances that would have a material adverse impact on the working capital or gearing ratio of the Company.

### **FUNDING OF REPURCHASE**

In repurchasing any shares, the Company may only apply funds from its available cash flow or working capital facilities, which are legally available for such purpose in accordance with its memorandum of association, bye-laws and the applicable laws of Bermuda.

The Companies Act further provides that no repurchase by a Company of its own shares may be effected if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the Company is, or after the purchase would be, unable to pay its liabilities as they become due.

### **DIRECTORS, THEIR ASSOCIATES AND CONNECTED PERSONS**

To the best of the knowledge of the Directors having made all reasonable enquiries, none of the Directors nor any associates of the Directors has a present intention, in the event that the Repurchase Resolution is passed by Shareholders, to sell shares to the Company.

As at the Latest Practicable Date, no connected person of the Company (as defined in the Listing Rules) has notified the Company that he/she has an intention to sell shares to the Company nor has any connected person of the Company undertaken not to sell any of the shares held by him/her to the Company, in the event that the Repurchase Resolution is passed.

### **UNDERTAKING OF THE DIRECTORS**

The Directors have undertaken to the Stock Exchange to exercise the powers of the Company to make repurchases pursuant to the Repurchase Resolution in accordance with the Listing Rules, all applicable laws of Bermuda and the memorandum of association and by-laws of the Company.

### **EFFECT OF TAKEOVERS CODE**

If on the exercise of the power to repurchase Shares pursuant to the mandate granted by the passing of the Repurchase Resolution, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of Rule 32 of the Takeovers Code. As a result, a shareholder or group of shareholders acting in concert could obtain or consolidate control of the Company and, depending on the level of increase of the shareholder's interest, may become obliged to make a mandatory offer in accordance with Rules 26 of the Takeovers Code.

As at the Latest Practicable Date, the substantial shareholder of the Company, Sino-i.com Limited, through its wholly owned subsidiaries, namely Victorious Limited, Robina Profits Limited and Ko Tact Limited, was interested in approximately 67.7% of the issued share capital of the Company. In the event that the Directors exercise in full the power to repurchase shares which is proposed to be granted pursuant to the Repurchase Resolution, the indirect shareholding of Sino-i.com Limited would be increased to approximately 75.2% of the then issued share capital of the Company. The Directors believe that such an increase would not give rise to an obligation to make a mandatory offer under Rule 26 of the Takeovers Code. The Directors have undertaken not to make any repurchase in the circumstances that shares in the hand of the public would fall below the relevant prescribed minimum percentage (i.e. 25%).

**SHARE PRICES**

The highest and lowest traded prices for shares on the Stock Exchange during each of the twelve months preceding the Latest Practicable Date were as follows:

<b>Month</b>	<b>PER SHARE</b>	
	<b>Highest</b> <i>HK\$</i>	<b>Lowest</b> <i>HK\$</i>
<b>2001</b>		
July	0.066	0.050
August	0.069	0.050
September	0.074	0.044
October	0.072	0.053
November	0.062	0.046
December	0.060	0.041
<b>2002</b>		
January	0.046	0.021
February	0.021	0.012
March	0.019	0.013
April	0.019	0.010
May	0.014	0.010
June	0.010	0.010

**SHARE REPURCHASE MADE BY THE COMPANY**

The Company has not repurchased any shares on the Stock Exchange in the six months preceding the Latest Practicable Date.

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## NOTICE OF SPECIAL GENERAL MEETING

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### South Sea Holding Company Limited

南海控股有限公司 \*

*(Incorporated in Bermuda with limited liability)*

#### NOTICE OF SPECIAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that a special general meeting of South Sea Holding Company Limited (the “**Company**”) will be held at Chater Room III, Function Room Level, The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on Thursday, 29 August 2002 at 10:15 a.m. (or so soon thereafter as the Annual General Meeting of the Company convened for the same place and date at 10:00 a.m. shall have been concluded or adjourned), for the purpose of considering and, if thought fit, passing, with or without modification, the following resolutions as Ordinary Resolutions:

#### ORDINARY RESOLUTIONS

1. “**THAT** conditional on the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting listing of, and permission to deal in, the shares of HK\$0.01 each in the capital of the Company (“**Shares**”) which may fall to be issued pursuant to the share option scheme (a copy of which is produced to the meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) (“**New Share Option Scheme**”), the New Share Option Scheme be and is hereby approved and adopted by the Company and with effect from the date of the New Share Option Scheme becoming unconditional and coming into effect, the existing share option scheme of the Company which was adopted by the Company on 8 January 2001 be terminated therefrom and the directors of the Company (“**Directors**”) be and are hereby authorised to allot and issue Shares pursuant to the exercise of any options which may fall to be granted under the New Share Option Scheme, and that to the extent permissible under the bye-laws of the Company, the Rules Governing the Listing of Securities on the Stock Exchange and the rules of the New Share Option Scheme, the Directors may vote in respect of any resolution(s) under or affecting the New Share Option Scheme (including the granting of options thereunder or approving the allotment and issue of Shares upon exercise of options thereunder) notwithstanding any interest(s) of any Director(s).”
2. “**THAT:**
  - (a) subject to paragraph (c) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of

\* *for identification purpose only*

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## NOTICE OF SPECIAL GENERAL MEETING

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the Company and to allot, issue or grant securities convertible into such shares, or options, warrants or similar rights to subscribe for any such shares or such convertible securities and to make or grant offers, agreements and options which might require the exercise of such power whether during or after the end of the Relevant Period be and is hereby generally and unconditionally approved;

- (b) the approval in paragraph (a) of this Resolution shall be in addition to any other authorizations given to the directors of the Company and shall authorize such directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the directors of the Company pursuant to the approval given in paragraph (a) of this Resolution, otherwise than pursuant to (i) a Rights Issue; (ii) an issue of shares as scrip dividends pursuant to the bye-laws of the Company from time to time; (iii) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company; or (iv) an issue of shares pursuant to the exercise of rights of subscription or conversion under terms of any warrants issued by the Company or any securities which are convertible into Shares, shall not exceed 20% of the nominal amount of the issued share capital of the Company at the date of passing of this Resolution and the said approval shall be limited accordingly;
- (d) subject to the passing of each of paragraphs (a), (b) and (c) of this Resolution, any prior approvals of the kind referred to in paragraphs (a), (b) and (c) of this Resolution which had been granted to the directors of the Company and which are still in effect be and are hereby revoked; and
- (e) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier 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 law or the bye-laws of the Company to be held; and
- (iii) the date on which the authority set out in this Resolutions is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.

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## NOTICE OF SPECIAL GENERAL MEETING

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“Rights Issue” means an offer of shares open for a period fixed by the directors of the Company to the holders of shares of the Company on the register on a fixed record date in proportion to their then holdings of such shares as at the date (subject to such exclusion or other arrangements as the directors of the Company 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 any recognised regulatory body or any stock exchange in, any territory outside Hong Kong applicable to the Company).”

3. **“THAT:**
- (a) subject to paragraph (b) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to repurchase shares in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time be and is hereby generally and unconditionally approved;
  - (b) the aggregate nominal amount of shares in the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution shall not exceed 10% of the nominal amount of the share capital of the Company in issue at the date of passing of this Resolution and the said approval shall be limited accordingly;
  - (c) subject to the passing of each of paragraphs (a) and (b) of this Resolution, any prior approvals of the kind referred to in paragraphs (a) and (b) of this Resolution which had been granted to the directors of the Company and which are still in effect be and are hereby revoked; and
  - (d) for the purposes of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earlier 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 law or the bye-laws of the Company to be held; and
    - (iii) the date on which the authority set out in this Resolutions is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting.”
4. **“THAT** subject to the passing of resolutions numbered 2 and 3 set out in the notice convening this Meeting, the general mandate granted to the directors of the Company to issue and dispose of additional shares pursuant to resolution numbered 2 set out in the notice convening this Meeting be and is hereby extended by the addition thereto

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## NOTICE OF SPECIAL GENERAL MEETING

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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 numbered 3 set out in the notice convening this Meeting, provided that such amount of shares so repurchased shall not exceed 10% of the nominal amount of the share capital of the Company in issue at the date of passing of this Resolution.”

By order of the Board  
**Watt Ka Po James**  
*Company Secretary*

Hong Kong, 31 July 2002

*Principal place of business:*

Rooms 601-4, 6/F  
Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

*Registered office:*

Cedar House  
41 Cedar Avenue  
Hamilton HM12  
Bermuda

**Notes:**

1. Any member who is the holder of two or more shares and who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the instrument appointing a proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited to the office of the share registrar of the Company in Hong Kong, Abacus Share Registrars Limited, at 5/F., Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.