

SHARE OPTION SCHEMES

Recently, the Stock Exchange of Hong Kong Limited announced changes to the Listing Rules which sets out the revised requirements for share option schemes operated by listed companies. In this respect, the operation of the share option scheme adopted at the annual general meeting of the Company on 25 October 2000 (the "Old Scheme") was terminated upon the adoption of the New Scheme (as defined below). In such event, no further option would be granted under the Old Scheme. However, all options granted prior to such termination and not yet exercised shall continue to be valid and exercisable subject to and in accordance with the Old Scheme.

On 30 October 2001, at the annual general meeting, the Company adopted a new share option scheme (the "New Scheme") under which the board of directors may, at their discretion, invite any full time and part time employees, directors, consultants or advisors of any of the companies within the Group to take up options to subscribe for ordinary shares of the Company at any time during ten years from the date of adoption. The maximum number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other schemes of the Company shall not exceed such number of shares as shall represent 30% of the issued share capital of the Company from time to time. Other details of the New Scheme were disclosed in the circular dated 28 September 2001.

As at 31 December 2001, no option has been granted by the Company under the New Scheme.

Details of share options outstanding as at 31 December 2001 which have been granted under the Old Scheme were as follows:

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of shares under options				
				At 1 July 2001	Granted during the period	Exercised during the period	Lapsed during the period	At 31 December 2001
Directors								
Yoshitaka Kitao	01-11-2000	01-11-2000 to 31-10-2010	0.480	27,960,000	—	—	—	27,960,000
	17-08-2001	17-08-2001 to 16-08-2011	0.390	—	10,000,000 ²	—	—	10,000,000

	Date of grant	Exercisable period	Exercise price per share HK\$	Number of shares under options				At 31 December 2001
				At 1 July 2001	Granted during the period	Exercised during the period	Lapsed during the period	
Hiroyuki Nakanishi	01-11-2000	01-11-2000 to 31-10-2010	0.480	20,000,000	—	—	—	20,000,000
	17-08-2001	17-08-2001 to 16-08-2011	0.390	—	5,000,000 ²	—	—	5,000,000
Katsuya Kawashima	01-11-2000	01-11-2000 to 31-10-2010	0.480	15,000,000	—	—	—	15,000,000
	17-08-2001	17-08-2001 to 16-08-2011	0.390	—	2,500,000 ²	—	—	2,500,000
Akira Kajikawa	01-11-2000	01-11-2000 to 31-10-2010	0.480	15,000,000	—	—	—	15,000,000
	17-08-2001	17-08-2001 to 16-08-2011	0.390	—	5,000,000 ²	—	—	5,000,000
Chang Ming Jang	01-11-2000	01-11-2000 to 14-08-2001 ¹	0.480	15,000,000	—	15,000,000 ¹	—	—
Choo Chee Kong	17-08-2001	17-08-2001 to 16-08-2011	0.390	—	2,500,000 ²	—	—	2,500,000
Employees	01-11-2000	01-11-2000 to 14-08-2001	0.480	3,900,000	—	—	500,000	3,400,000
	17-08-2001	17-08-2001 to 16-08-2011	0.390	—	14,400,000 ²	—	1,000,000	13,400,000

Notes:

- (1) The exercise period in respect of the options held by Mr Chang Ming Jang was shortened from 31 October 2010 to 14 August 2001 as a result of the cessation of Mr Chang as an executive director (but remains as a non-executive director) of the Company on 15 May 2001. These options were exercised on 14 August 2001. At the date immediately before the options were exercised, the closing price per share was HK\$0.465.
- (2) At the date immediately before the options were granted on 17 August 2001, the closing price per share was HK\$0.50.

- (3) Options granted to directors are immediately vested on the date of grant. Options granted to employees are vested as follows:

On 1st anniversary of the date of grant *	25% vested
On 2nd anniversary of the date of grant *	further 25% vested
On 3rd anniversary of the date of grant *	remaining 50% vested

* or on the 1st, 2nd and 3rd anniversary of an earlier date in which the grantee became an employee of the Group (as the case may be).

- (4) In assessing the value of the share options granted during the six month period ended 31 December 2001, the Black-Scholes option pricing model (the "Black-Scholes Model") has been used. The Black-Scholes Model is one of the most generally accepted methodologies used to calculate the value of options and is one of the recommended option pricing models as set out in Chapter 17 of the Listing Rules. The variables of the Black-Scholes Model include, expected life of the options, risk-free interest rate, expected volatility and expected dividend of the shares of the Company, if any.

In assessing the value of the share options granted during the period to both directors and employees the following variables have been applied to the Black-Scholes Model:

- (a) The expected life is estimated to be 5 years from the date of grant (the "Measurement Date").
- (b) The risk-free rate applied to the Black-Scholes Model is 5.01%, which represents the yield of the Hong Kong Exchange Fund Notes corresponding to the expected life of the options as at the Measurement Date.
- (c) The expected volatility used in the calculation is 100.28% and represents the standard deviation of the daily closing share prices of the Company for the last twelve months from the Measurement Date.
- (d) Based on historic pattern, it is assumed that no dividend would be paid out during the expected life of the options.

Using the Black-Scholes Model in assessing the value of share options granted during the period, the options would have an aggregate value of approximately HK\$15,760,000, represented as follows:

	Number of share options granted during the period	Estimated value per option HK\$	Estimated value of options granted during the period HK\$
Directors			
Yoshitaka Kitao	10,000,000	0.40	4,000,000
Hiroyuki Nakanishi	5,000,000	0.40	2,000,000
Katsuya Kawashima	2,500,000	0.40	1,000,000
Akira Kajikawa	5,000,000	0.40	2,000,000
Choo Chee Kong	2,500,000	0.40	1,000,000
		Sub-total	10,000,000
Employees	14,400,000	0.40	5,760,000
		Total	15,760,000

In assessing the aggregate value of the share options, no adjustment has been made for possible future forfeiture of the options. No charge is recognised in the profit and loss account in respect of the value of options granted during the period. The share options granted will be recognised in the balance sheet at the time when the share options are exercised. Share capital will be credited at par for each share issued upon the exercise of share options, with share premium credited at the excess of net proceeds received over total share capital credited.

It should be noted that the value of options calculated using the Black-Scholes Model is based on various assumptions and is only an estimate of the value of share options granted during the period. It is possible that the financial benefit accruing to the grantee of an option will be considerably different from the value determined under the Black-Scholes Model.