

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

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

**If you have sold all** your shares of Fong's Industries Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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.

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## **FONG'S INDUSTRIES COMPANY LIMITED**

*(Incorporated in Bermuda with limited liability)*

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

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The notice convening a Special General Meeting of Fong's Industries Company Limited ("the Company") to be held at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong on 26th May, 2003 at 10:30 a.m. (or so soon thereafter as the Annual General Meeting of the Company to be convened for the same day and place shall have been concluded or adjourned) is set out on pages 16 to 19 of this circular.

Whether you are able to attend or not, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the principal place of business of the Company at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong as soon as possible and in any event not less than 48 hours before the time for holding the meeting.

28th April, 2003

# CONTENTS

	<i>Page</i>
<b>Definitions</b> .....	1
<b>Letter from the Chairman</b>	
1. Introduction .....	4
2. Termination of the Existing Share Option Scheme and adoption of the New Share Option Scheme .....	4
3. Conditions precedent of the New Share Option Scheme .....	5
4. General mandate to repurchase Shares .....	6
5. General mandate to issue Shares .....	6
6. Special General Meeting .....	6
7. Action to be taken .....	6
8. Document available for inspection .....	7
9. Recommendation .....	7
<b>Appendix I – Summary of the principal terms of the New Share Option Scheme</b> ....	8
<b>Appendix II – Explanatory Statement</b> .....	13
<b>Notice of Special General Meeting</b> .....	16

## DEFINITIONS

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

“AGM”	the Annual General Meeting of the Company to be held at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong on 26th May, 2003 at 10:00 a.m.;
“Associated Company”	a company in which the Company or any of its Subsidiaries holds an interest or any subsidiary of such company;
“Board”	the board of Directors;
“Business Day”	a day (other than a Saturday or a Sunday) on which licensed banks are generally open for business in Hong Kong and the Stock Exchange is open for business of dealing in securities;
“Company”	Fong’s Industries Company Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange;
“Companies Act”	the Companies Act 1981 of Bermuda (as amended);
“Directors”	the directors of the Company for the time being;
“Existing Share Option Scheme”	the share option scheme adopted by the Company on 19th September, 2000 and which will expire on 18th September, 2010;
“Grantee”	any Participant. who accepts an offer in accordance with the terms of the New Share Option Scheme or (where the context so permits) the personal representative(s) entitled to any such Option in consequence of the death of the original Grantee;
“Group”	the Company, its Subsidiaries and its Associated Companies from time to time;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Latest Practicable Date”	17th April, 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange;
“New Share Option Scheme”	the new share option scheme proposed to be adopted by the Company at the SGM, a summary of the principal terms of the rules of which are set out in Appendix I to this circular;

## DEFINITIONS

“Offer Date”	the date on which an offer of the grant of an Option is made by the Board to a Participant in accordance with the New Share Option Scheme, which date must be a Business Day;
“Option”	a right to subscribe for Shares pursuant to the terms of the New Share Option Scheme;
“Option Period”	a period to be determined by the Board at its absolute discretion and notified by the Board to each Grantee as being the period during which an Option may be exercised;
“Ordinary Resolution(s)”	the proposed ordinary resolution(s) as referred to in the SGM Notice;
“Participant”	any employee, director, customers, business consultant, business partner and professional adviser of the Company or any of its Subsidiaries or Associated Companies as absolutely determined by the Board of the Company;
“Repurchase Mandate”	a general Mandate to the Directors to exercise the power of the Company to repurchase Shares during the period as set out in Ordinary Resolution no.2 up to 10 per cent. of the issued share capital of the Company as at the date of passing Ordinary Resolution no.2;
“SGM”	the Special General Meeting of the Company to be held at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong on 26th May, 2003 at 10:30 a.m. (or so soon thereafter as the AGM to be convened for the same day and place shall have been concluded or adjourned), the notice of which is enclosed with this circular;
“SGM Notice”	the notice convening the SGM as set out on pages 16 to 19 of this circular;
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company (or of such other nominal amount as shall result from a sub-division, consolidation, reclassification or reconstruction of the share capital of the Company from time to time);
“Share Buyback Rules”	the relevant rules set out in the Listing Rules to regulate the repurchase by companies with primary listing of their own securities on the Stock Exchange;
“Share Issue Mandate”	a general mandate to the Directors to exercise the power of the Company to allot and issue Shares during the period as set out in Ordinary Resolution no.3 up to 20 per cent. of the issued share capital of the Company as at the date of passing Ordinary Resolution no.3;

## DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Subsidiary”	a company which is for the time being and from time to time a subsidiary (within the meaning of the Companies Ordinance of Hong Kong (Chapter 32 of the Laws of Hong Kong) or the Companies Act) of the Company;
“Takeover Code”	Hong Kong Codes on Takeovers and Mergers; and
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong.

LETTER FORM THE CHAIRMAN



**FONG'S INDUSTRIES COMPANY LIMITED**

*(Incorporated in Bermuda with limited liability)*

*Directors:*

Mr. Fong Sou Lam (*Chairman*)  
Mr. Lee Che Chiu (*Managing Director*)  
Mr. Fong Kwok Leung, Kevin  
Mr. Fong Kwok Chung, Bill  
Mr. Cheuk Hon Kin, Kelvin  
Dr. Tsui Tak Ming, William  
Ms. Poon Hang Sim, Blanche  
\* Mr. Cheung Chiu Fan  
\* Mr. Lui Chi Lung, Louis  
  
\* *Independent non-executive Director*

*Head Office and Principal*

*Place of Business:*

8th Floor  
22-28 Cheung Tat Road  
Tsing Yi  
Hong Kong

*Registered Office:*

Cedar House  
41 Cedar Avenue  
Hamilton HM 12  
Bermuda

28th April, 2003

*To the shareholders,*

Dear Sir or Madam,

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

**1. INTRODUCTION**

The purpose of this circular is to provide you with the relevant information regarding the proposed adoption of the New Share Option Scheme and the proposed renewal of the general mandates to issue and allot Shares and to repurchase Shares and to seek your approval of the Ordinary Resolutions relating to these matters at the SGM.

**2. TERMINATION OF THE EXISTING SHARE OPTION SCHEME AND ADOPTION OF THE NEW SHARE OPTION SCHEME**

The Existing Share Option Scheme was adopted by the Company on 19th September, 2000. It will expire on 18th September, 2010. To be in line with the recent changes of the Listing Rules in relation to share option schemes and to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as the Board may approve from time to time, the Board proposes that the Existing Share Option Scheme be terminated and the New Share Option Scheme for the Participants be approved and adopted at the SGM.

## LETTER FORM THE CHAIRMAN

At the SGM, Ordinary Resolution no.1 will be proposed that the Existing Share Option Scheme be terminated and the New Share Option Scheme be approved and adopted at the SGM. A summary of the principal terms of the New Share Option Scheme is set out in Appendix I hereto. Subject to the approval of the shareholders of the Company of the adoption of the New Share Option Scheme at the SGM, the Existing Share Option Scheme be terminated with effect from the conclusion of the SGM and the New Share Option Scheme will take effect on the date of its adoption at the SGM. Operation of the New Share Option Scheme will commence after all conditions precedent as referred to in paragraph 3 below have been fulfilled.

The Board granted the options pursuant to the Existing Share Option Scheme to participants to subscribe for a total of 43,800,000 Shares representing approximately 7.78 per cent. of the issued share capital of the Company as at the Latest Practicable Date. Save as aforesaid and up to the Latest Practicable Date, no other options have been granted to any participant. As at the Latest Practicable Date, there are 43,800,000 Shares issued pursuant to the exercise of the options granted under the Existing Share Option Scheme. There is no outstanding option under the Existing Share Option Scheme. There is no option cancelled under the Existing Share Option Scheme. The Board confirms that prior to the SGM, it will not grant any further option under the Existing Share Option Scheme. Besides the Existing Share Option Scheme, there is no other subsisting share option schemes as at the Latest Practicable Date.

As at the Latest Practicable Date, the issued share capital of the Company comprised 562,996,285 Shares. Assuming that there is no change in the issued share capital between the period from the Latest Practicable Date and the date of approval of the New Share Option Scheme, the number of Shares issuable pursuant to the New Share Option Scheme and any other option schemes on the date of its adoption will be 56,299,628 Shares.

### **3. CONDITIONS PRECEDENT OF THE NEW SHARE OPTION SCHEME**

The New Share Option Scheme will take effect upon satisfaction of the following conditions:

- (i) the passing of an ordinary resolution approving the termination of the Existing Share Option Scheme by the shareholders of the Company in general meeting;
- (ii) the passing of an ordinary resolution approving the adoption of the New Share Option Scheme by the shareholders of the Company in general meeting; and
- (iii) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, the Shares to be issued and allotted pursuant to the exercise of the Options granted under the New Share Option Scheme up to 10 per cent. of the total number of Shares in issue as at the date of approval of the New Share Option Scheme.

Upon satisfaction of the above conditions, the Board will have the right to grant to the Participants Options to subscribe for Shares, which when aggregated with Shares to be granted under any other share option schemes of the Company, representing up to 10 per cent. of the total number of Shares in issue as at the date of approval of the New Share Option Scheme, unless the Company obtains a fresh approval from its shareholders to renew the 10 per cent. limit. The maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company shall not exceed 30 per cent. of the issued share capital of the Company from time to time.

## **LETTER FROM THE CHAIRMAN**

Application will be made to the Stock Exchange for the approval of the listing of, and permission to deal in, the Shares to be issued and allotted pursuant to the exercise of the Options granted under the New Share Option Scheme up to 10 per cent. of the total number of Shares in issue as at the date of approval of the New Share Option Scheme.

Once the New Share Option Scheme is adopted, any alterations to the terms and conditions thereof, which are of a material nature, must be approved by the shareholders of the Company, except where the alterations take effect automatically pursuant to the terms originally provided in the New Share Option Scheme.

#### **4. GENERAL MANDATE TO REPURCHASE SHARES**

An ordinary resolution will be proposed at the SGM to grant to the Directors the Repurchase Mandate, details of which are set out in Ordinary Resolution no.2 in the SGM Notice. The Shares which may be repurchased pursuant to the Repurchase Mandate is up to 10 per cent. of the issued share capital of the Company at the date of passing of the resolution approving the Repurchase Mandate.

An explanatory statement as required under the Share Buyback Rules, giving certain information regarding the Repurchase Mandate, is set out in the Appendix II hereto.

#### **5. GENERAL MANDATE TO ISSUE SHARES**

An ordinary resolution will be proposed at the SGM to grant to the Directors the Share Issue Mandate. In addition, an ordinary resolution will also be proposed to authorise an extension of the Share Issue Mandate by adding to the aggregate number of Shares which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to the Share Issue Mandate the number of Shares purchased under the Repurchase Mandate, if granted.

Details of the Share Issue Mandate and the extension of the Share Issue Mandate are set out in Ordinary Resolutions no.3 and no.4 in the SGM Notice.

#### **6. SPECIAL GENERAL MEETING**

Set out on pages 16 to 19 of this circular is the SGM Notice at which the Ordinary Resolutions will be proposed to approve the termination of the Existing Share Option Scheme, the adoption of the New Share Option Scheme, the Repurchase Mandate, the Share Issue Mandate and the extension of the Share Issue Mandate.

#### **7. ACTION TO BE TAKEN**

A form of proxy for use at the SGM is enclosed. Whether or not you intend to be present at the SGM, you are requested to complete the form of proxy and return it to the principal place of business of the Company in accordance with the instructions printed thereon not less than 48 hours before the time fixed for holding the SGM.



## LETTER FORM THE CHAIRMAN

### 8. DOCUMENT AVAILABLE FOR INSPECTION

Copy of the New Share Option Scheme will be available for inspection at the principal place of business of the Company during normal business hours up to and including the date of the SGM.

### 9. RECOMMENDATION

The Directors believe that the termination of the Existing Share Option Scheme and adoption of the New Share Option Scheme, the Repurchase Mandate, the Share Issue Mandate and the extension of the Share Issue Mandate are in the best interests of the Company as well as its shareholders. Accordingly, the Directors recommend that all shareholders of the Company should vote in favour of all the resolutions set out in the SGM Notice.

Yours faithfully,  
By Order of the Board  
**FONG SOU LAM**  
*Chairman*

**1. RESPONSIBILITY STATEMENT**

This document 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 document and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained herein the omission of which would make any statement contained in this document misleading.

**2. SUMMARY OF THE NEW SHARE OPTION SCHEME**

The following is a summary of the principal terms of the rules of the New Share Option Scheme to be adopted at the SGM:

- (a) The purpose of the New Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as the Board may approve from time to time, subject to any necessary consent or approval being obtained from the shareholders or independent non-executive Directors of the Company or the Stock Exchange or any other stock exchange or any other relevant regulatory body where such consent or approval is required by the Company's memorandum and bye-laws or any applicable law or regulatory requirement (including for the avoidance of doubt Chapter 17 of the Listing Rules).
- (b) The New Share Option Scheme is conditional upon (i) the approval of the shareholders of the Company in general meeting for the termination of the Existing Share Option Scheme, (ii) the approval of the shareholders of the Company in general meeting for the adoption of the New Share Option Scheme, and (iii) the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, any Shares to be issued and allotted pursuant to the exercise of Options under the New Share Option Scheme.
- (c) The Board may, at their discretion, invite any Participant to take up Options. An Option is deemed to have been granted and accepted by the Grantee upon his or her signing the duplicate letter comprising acceptance of the Option and paying HK\$1 by way of consideration for the grant thereof. The subscription price for Shares in the Company is calculated in accordance with sub-paragraph (d) below.
- (d) The subscription price for Shares in the Company under the New Share Option Scheme will be the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which an Option is offered (which date must be a Business Day), (ii) a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date on which an Option is offered, and (iii) the nominal value of a Share.

- (e) (i) Subject to (iv) below, 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 schemes of the Company shall not in aggregate exceed 10 per cent. of the total number of Shares in issue as at the date of approval of the New Share Option Scheme unless the Company obtains a fresh approval from its shareholders pursuant to (ii) below.
- (ii) Subject to (iv) below, the Company may seek approval of its shareholders in general meeting to refresh the 10 per cent. limit set out in (i) above such that the total number of Shares in respect of which Options may be granted under the New Share Option Scheme or any other share option schemes of the Company shall not exceed 10 per cent. of the total number of Shares in issue as at the date of approval to refresh such limit. Options previously granted under any share option schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the New Share Option Scheme or exercised Options) will not be counted for the purpose of calculating such refreshed 10 per cent. limit.
- (iii) Subject to (iv) below, the Company may grant Options to specified Participant(s) beyond the 10 per cent. limit if the Options in excess of the limit are granted only to specified Participant(s) identified by the Company and is specifically approved by the shareholders of the Company in general meeting.
- (iv) Notwithstanding the above, the maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the New Share Option Scheme and any other share option schemes of the Company shall not exceed 30 per cent. of the total number of Shares in issue from time to time.
- (f) Subject to the provisions of the New Share Option Scheme, the Board may at its discretion when offering the grant of an Option imposes any conditions, restrictions or limitations in relation thereto as it may think fit.
- (g) (i) The maximum entitlement for any one Participant is that the total number of Shares issued and to be issued upon exercise of the Options granted to each Participant under the New Share Option Scheme and any other the option schemes (including both exercised, cancelled and outstanding Options) in any 12-month period shall not exceed 1 per cent. of the total number of Shares in issue.
- (ii) Any further grant of Options in excess of the 1 per cent. limit shall be subject to shareholders' approval in general meeting with such Participant and his or her associates (with the meaning as ascribed under the Listing Rules) abstaining from voting. The number and terms of the Options to be granted to such Participant shall be fixed before shareholders' approval and the date of the Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

- (h) (i) Any grant of Options to a Participant who is a director, chief executive or substantial shareholder (all with the meaning as ascribed under the Listing Rules) of the Company or their respective associates (with the meaning as ascribed under the Listing Rules) must be approved by the independent non-executive directors of the Company (excluding the independent non-executive Director who is the Grantee).
- (ii) Where the Board proposes to grant any Option to a Participant who is a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates (with the meaning as ascribed under the Listing Rules) 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 him or her under the New Share Option Scheme and any other option schemes in the 12 month period up to and including the date of such grant:
- (1) representing in aggregate more than 0.1 per cent. of the total number of Shares in issue; and
  - (2) 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 proposed grant of Options must be approved by the shareholders of the Company in general meeting with all other connected persons (with the meaning as ascribed under the Listing Rules) of the Company abstaining from voting (except where any connected person may vote against the relevant resolution). In such a case, the Company shall send a circular to its shareholders containing all those terms as required under the Listing Rules. Any vote taken at the meeting to approve the grant of such Options must be taken on a poll.

- (i) An Option may be exercised in accordance with the terms of the New Share Option Scheme at any time during the Option Period after the Option has been granted by the Board. An Option Period is a period to be determined by the Board in its absolute discretion and notified by the Board to each Grantee as being the period during which an Option may be exercised, such period shall commence from the date of acceptance of the offer for the grant of the Option and shall end not later than 10 years from the date on which the offer for grant of the Option is made. No performance targets must be achieved before an Option can be exercised.
- (j) An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, pledge, encumber or create any interest in favour of any third party over or in relation to any Option.
- (k) If the Grantee of an Option ceases to be a Participant for any reason other than on his or her death or the termination of his or her employment on one or more of the grounds specified in paragraph (m) below, the Grantee may exercise the Option up to his or her entitlement at the date of cessation (to the extent he or she is entitled to exercise at the date of cessation but not already exercised) and in any event not later than the date of such cessation, which date shall be the last actual working day with the Group whether salary is paid in lieu of notice or not or the last date of appointment as a director of the Group, as the case may be.

- (l) If the Grantee of an Option dies before exercising the Option in full and none of the events which would be a ground for termination of his or her employment under paragraph (m) below arises, the personal representative(s) of the Grantee may exercise the Option up to the entitlement of such Grantee at the date of death (to the extent he or she is entitled to exercise at the date of cessation but not already exercised) within a period of 12 months following the date of the death of the Grantee, or such longer period as the Board may determine from the date of death.
- (m) An Option shall lapse automatically (to the extent he or she is entitled to exercise at the date of cessation but not already exercised) on the date on which the Grantee ceases to be an employee or a director of the Group by reason of the termination of his or her employment or directorship on the grounds that he or she has been guilty of misconduct, or has committed any 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.
- (n) In the event a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purposes of considering and if thought fit, approving a resolution to voluntarily wind up the Company, other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, the Company shall on the same date as or soon after it despatches such notice to convene the shareholders' meeting, give notice thereof to all Grantees and thereupon, each Grantee (or his or her personal representatives (s)) shall be entitled to exercise all or any of his or her Option at any time not later than 7 Business Days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a payment for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the Business Day immediately prior to the date of the proposed general meeting referred to above allot the relevant Shares to the Grantee credited as fully paid. Subject to the above, an Option will lapse automatically (to the extent not already exercised) upon the expiry of the period in which to exercise an Option referred to above.
- (o) The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the memorandum and bye-laws of the Company for the time being in force and will rank pari passu in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment of the relevant Shares other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment of the relevant Shares.
- (p) In the event of a capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of the Company whilst any Option remains exercisable, such corresponding adjustment (if any) certified in writing by the auditors for the time being of the Company to be in their opinion as fair and reasonable will be made to (i) the number of Shares subject to the Option so far as unexercised; and/or (ii) the subscription price provided that no such adjustment shall

be made so that a Share would be issued at less than its nominal value or which would give a Grantee a different proportion of the issued share capital of the Company as that to which he or she was previously entitled. No alteration shall be made if any alteration in the capital structure of the Company is the result of an issue of Shares as consideration in a transaction.

- (q) The New Share Option Scheme will remain in force for a period of 10 years commencing on the date on which it is adopted by resolution of the Company in general meeting, after which period no further Options will be issued but in all other respects the provisions of the New Share Option Scheme shall remain in full force and effect.
- (r) The Company by resolution in general meeting or the Board may at any time cancel any Option granted but not exercised and re-issue the cancelled Option.
- (s) The Company by resolution in general meeting or the Board may at any time terminate the operation of the New Share Option Scheme and in such event no further Options will be offered but in all other respects the provisions of the New Share Option Scheme shall remain in full force and effect.
- (t) 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 at general meeting. 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 at general meeting except where the alterations take effect automatically under the existing terms of the New Share Option Scheme.

### **3. EXPLANATION OF THE TERMS**

The terms of the New Share Option Scheme are in line with the provisions of the revised Chapter 17 of the Listing Rules, which govern the terms of the share option schemes of listed companies. Further, the New Share Option Scheme will provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the Participants and for such other purposes as the Board may approve from time to time. Therefore, the New Share Option Scheme, if adopted, will be in the interest of the Company as a whole in terms of management and operation. Accordingly, the Board proposes to recommend the shareholders of the Company approve the adoption of the New Share Option Scheme and simultaneously terminate the Existing Share Option Scheme at the SGM.

### **4. VALUE OF THE OPTIONS**

Since the New Share Option Scheme is yet to be approved by the shareholders of the Company, the Board has not yet determined the time frame on the granting of the Options under the New Share Option Scheme and the number of Shares for which any Grantee may subscribe upon exercise of an Option. Accordingly, the Board considers that it is premature and inappropriate to state the value of the Option for the time being in this circular.

This appendix serves as an explanatory statement, as required by the Listing Rules and Share Buyback Rules to provide requisite information to you for your consideration of the proposal to permit the repurchase of Shares up to a maximum of 10% of the issued share capital of the Company as at the date of Repurchase Mandate. For the purpose of this appendix, the term “shares” shall be as defined in the Takeover Code which mean shares of all classes and securities which carry a right to subscribe or purchase shares.

## **1. SHARE BUYBACK RULES**

The Share Buyback Rules permit companies whose primary listing are on the Stock Exchange to repurchase their fully paid up shares on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

### **(a) Shareholders’ Approval**

The Share Buyback Rules provide that all on-market share repurchases by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of a specific approval in relation to specific transactions or by a general mandate to the directors of the company to make such repurchase.

### **(b) Source of Funds**

Repurchase must be made out of funds which are legally available for the purpose and in accordance with the laws of Bermuda and the memorandum of association and bye-laws of the Company.

The Company is empowered by its memorandum of association and bye-laws to purchase its shares. The laws of Bermuda provide that the amount of capital paid in connection with a share repurchase may only be paid out of either the capital paid up on the relevant shares, or out of funds of the Company otherwise available for dividend or distribution or the proceeds of a fresh issue of shares made for the purpose. The amount of premium payable on repurchase may only be paid out of funds of the Company otherwise available for dividend or distribution or out of the share premium account of the Company.

## **2. SHARE CAPITAL**

As at the Latest Practicable Date, the issued share capital of the Company comprised 562,996,285 Shares.

Subject to the passing of the Repurchase Mandate and on the basis that no further Shares are issued or repurchased prior to the SGM, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 56,299,628 Shares representing not more than 10% of the issued share capital at the Latest Practicable Date.

## **3. REASONS FOR REPURCHASE**

The Directors believe that the Repurchase Mandate affords the Company the flexibility and ability in pursuing the best interests of the Company and its shareholders. Such purchase may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net assets and/or earnings per Share of the Company and will only be made when the Directors believe that such a purchase will benefit the Company and its shareholders.

#### 4. FUNDING OF REPURCHASE

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

On the basis of the consolidated financial position of the Company as at 31st December, 2002 being the date to which the latest published accounts of the Company were made up, the Directors consider that in the event that the Repurchase Mandate were to be carried out in full at any time during the proposed repurchase period, there might be an adverse impact on the working capital position of the Company. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirement of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

#### 5. SHARE PRICES

The highest and lowest prices at which the Shares of the Company have traded on the Stock Exchange during each of the previous 12 months before the printing of this circular were as follows:

Month	Shares	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
<b>2002</b>		
April	1.08	0.91
May	1.59	1.05
June	1.50	1.14
July	1.52	1.23
August	1.61	1.43
September	2.00	1.53
October	1.99	1.78
November	1.86	1.79
December	2.325	1.83
<b>2003</b>		
January	2.925	2.125
February	3.425	2.90
March	3.325	2.85

#### 6. GENERAL

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the powers of the Company to make repurchases pursuant to the Repurchase Mandate and in accordance with the Listing Rules and the applicable laws of Bermuda.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, their associates, have any present intention to sell any Shares to the Company under the Repurchase Mandate if such is approved by the shareholders.



No other connected persons (as defined in the Listing Rules) have notified the Company that they have a present intention to sell Shares to the Company, or have undertaken not to do so, in the event that the Repurchase Mandate is approved by the shareholders.

## **7. TAKEOVER CODE**

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

As at the Latest Practicable Date, Mr. Fong Sou Lam, Mr. Fong Kwok Leung, Kevin and Mr. Fong Kwok Chung, Bill together with their associates (as defined in the Listing Rules) were interested in aggregate of 322,369,601 Shares, representing approximately 57.26% of the Shares issued by the Company. In the event the Directors exercised in full the power to repurchase Shares pursuant to the Repurchase Mandate, the shareholdings of the aforesaid persons, together with their associates in the Company would be increased to approximately 63.62% of the issued share capital of the Company and the number of Shares held by the public would not fall below 25% of the issued share capital of the Company. The Directors are not aware of any consequence which may arise under the Takeover Code as a result of any repurchases made under the Repurchase Mandate.

## **8. SHARE PURCHASE MADE BY THE COMPANY**

The Company had not purchased any Shares (whether on the Stock Exchange or otherwise) in the six months preceding the Latest Practicable Date.

## NOTICE OF SPECIAL GENERAL MEETING



### FONG'S INDUSTRIES COMPANY LIMITED

*(Incorporated in Bermuda with limited liability)*

**NOTICE IS HEREBY GIVEN** that a Special General Meeting of Fong's Industries Company Limited ("the Company") will be held at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong, on 26th May, 2003 at 10:30 a.m. (or so soon thereafter as the Annual General Meeting of the Company to be convened for the same day and place shall have been concluded or adjourned) for the purpose of considering and, if thought fit, passing the following resolutions, with or without modification, as the Ordinary Resolutions of the Company:—

#### AS ORDINARY RESOLUTIONS

1. **"THAT:**

- (i) the existing share option scheme for the full-time employees (including full-time executive directors) of the Company and its subsidiaries which was adopted by the Company at its general meeting on 8th June, 2000 be and is hereby terminated with immediate effect; and
- (ii) subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") granting approval of the listing of, and permission to deal in, the shares in the Company to be issued and allotted pursuant to the exercise of any options under the share option scheme of the Company (the "New Share Option Scheme"), the rules of which are contained in the document marked "A" produced to the meeting and for the purposes of identification signed by the Chairman thereof, the New Share Option Scheme be and is hereby approved and adopted and the board of directors of the Company be and is hereby authorised to do all such acts and to enter into all such transactions, arrangements and agreements as may be necessary or expedient in order to give full effect to the New Share Option Scheme including but without limitation:
  - (a) to administer the New Share Option Scheme under which options will be granted to participants eligible under the New Share Option Scheme to subscribe for shares in the Company;
  - (b) to modify and/or amend the New Share Option Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the New Share Option Scheme relating to modification and/or amendment;
  - (c) to issue and allot from time to time such number of shares in the Company as may be required to be issued and allotted pursuant to the exercise of the options under the New Share Option Scheme and subject to the Rules Governing the Listing of Securities on the Stock Exchange;

## NOTICE OF SPECIAL GENERAL MEETING

- (d) to make application at the appropriate time or times to the Stock Exchange; and any other stock exchanges upon which the issued shares of the Company may for the time being be listed, for listing of, and permission to deal in, any shares in the Company which may hereafter from time to time be issued and allotted pursuant to the exercise of the options under the New Share Option Scheme; and
- (e) to consent, if it so deems fit and expedient, to such conditions, modifications and/or variations as may be required or imposed by the relevant authorities in relation to the New Share Option Scheme.”

2. **“THAT:**

- (i) subject to paragraph (ii) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase shares in the capital of the Company on the Stock Exchange or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (ii) the aggregate nominal amount of shares of the Company to be repurchased by the Company pursuant to the approval in paragraph (i) of this Resolution shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution, and the said approval shall be limited accordingly; and
- (iii) for the purposes of this Resolution,

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of

- (a) the conclusion of the next Annual General Meeting of the Company; or
- (b) the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held; or
- (c) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders of the Company in general meeting.”

3. **“THAT:**

- (i) subject to paragraph (iii) of this Resolution, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make and grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require shares to be allotted be and is hereby generally and unconditionally approved;

## NOTICE OF SPECIAL GENERAL MEETING

- (ii) the approval in paragraph (i) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make and grant offers, agreements and options (including warrants, bonds, debentures, notes and other securities which carry rights to subscribe for or are convertible into shares of the Company) which would or might require shares to be allotted after the end of the Relevant Period;
- (iii) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (i) of this Resolution, otherwise than pursuant to (a) a Rights Issue (as hereinafter defined); or (b) an issue of shares upon the exercise of subscription rights under any option scheme or similar arrangement for the time being adopted for the grant or issue to the grantees as specified in such scheme or similar arrangement of shares or rights to acquire shares of the Company; or (c) any issue of shares pursuant to the exercise of rights of subscription or conversion under the terms of any existing warrants, bonds, debentures, notes and other securities of the Company which carry rights to subscribe for or are convertible into shares of the Company; or (d) an issue of shares pursuant to any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of the dividend on shares of the Company in accordance with the Articles of Association of the Company, shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution and the said approval shall be limited accordingly; and
- (iv) for the purposes of this Resolution:–

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (a) the conclusion of the next Annual General Meeting of the Company; or
- (b) the expiration. of the period within which the next Annual General Meeting of the Company is required by law to be held; or
- (c) the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders of the Company in general meeting; and

“Rights Issue” means an offer of shares of the Company or issue of option, warrants or other securities giving the right to subscribe for shares of the Company, open for a period fixed by the Directors of the Company to holders of shares, or any class of shares, whose names appear on the register of members of the Company (and, where appropriate, to holders of other securities of the Company entitled to the offer) on a fixed record date in proportion to their holdings of such shares (or, where appropriate, such other securities) as at that date (subject to such exclusions 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 applicable to the Company).”

## NOTICE OF SPECIAL GENERAL MEETING

4. “**THAT** the general mandate granted to the Directors of the Company to exercise the powers of the Company to allot, issue and deal with any additional shares of the Company pursuant to Ordinary Resolution no.3 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution no.2 set out in the notice convening this meeting, provided that such extended amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue at the date of the passing of this Resolution.”

By Order of the Board  
**C. K. LEE**  
*Company Secretary*

Hong Kong, 28th April, 2003

*Notes:*

1. A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, the form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the principal place of business of the Company at 8th Floor, 22-28 Cheung Tat Road, Tsing Yi, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.