

CIRCULAR DATED 28 JUNE 2001

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, accountant, solicitor or other professional adviser immediately.

If you have sold all your shares in the capital of Chip Eng Seng Corporation Ltd, you should immediately hand this Circular and the enclosed Proxy Form to the stockbroker or agent through whom you effected the sale for transmission to the purchaser.



CHIP ENG SENG CORPORATION LTD

(Incorporated in the Republic of Singapore)

CIRCULAR TO SHAREHOLDERS

IN RELATION TO:-

- (A) THE PROPOSED SHARE PURCHASE MANDATE; AND**
- (B) THE ADOPTION OF THE PROPOSED CHIP ENG SENG EMPLOYEES' SHARE OPTION SCHEME 2001.**

IMPORTANT DATES:

Last date and time for lodgment of Proxy Form : 16 July 2001 at 10.00 a.m.

Date and time of Extraordinary General Meeting : 18 July 2001 at 10.00 a.m.

Place of Extraordinary General Meeting : 69 Ubi Crescent, #06-01,
CES Building,
Singapore 408561.

DEFINITIONS

In this Circular, the following definitions apply throughout unless otherwise stated:

“Articles”	The articles of association of the Company
“Board”	The board of directors of the Company
“Company”	Chip Eng Seng Corporation Ltd
“Companies Act”	The Companies Act, Chapter 50 of Singapore
“Controlling Shareholder”	A person or persons exercising control over the Company. Unless rebutted, a person who controls directly or indirectly a shareholding of 15 per cent. or more of the issued share capital of the Company shall be presumed to be a Controlling Shareholder of the Company
“CDP”	The Central Depository (Pte) Limited
“Director”	A director of the Company for the time being
“EGM”	The Extraordinary General Meeting of the Company, notice of which is set out on page 40 of this Circular
“FY”	Financial year ended/ending 31 December
“Group”	The Company and its subsidiaries
“Latest Practicable Date”	18 June 2001, being the latest practicable date prior to the printing of this Circular
“Listing Manual”	The listing manual of the SGX-ST
“Listing Rules”	Such rules and guidelines of the SGX-ST as may for the time being be applicable to a company whose shares are listed and quoted on the SGX-ST
“SGX-ST”	Singapore Exchange Securities Trading Limited
“Scheme”	The proposed share option scheme of the Company to be known as the “Chip Eng Seng Employees’ Share Option Scheme 2001”
“Scheme Committee”	A committee, comprising Directors of the Company, appointed by the Board to administer the Scheme
“Share Purchase Mandate”	The proposed mandate of the Shareholders to allow the Company to purchase its issued Shares
“Shareholders”	Registered holders of Shares except that where the registered holder is CDP, the term “Shareholders” shall, in relation to such Shares, mean the persons to whose securities accounts maintained with CDP are credited with the Shares
“Shares”	Ordinary shares of S\$0.05 each in the capital of the Company

“\$” and “cents” Singapore dollars and cents respectively

“%” Percentage or per centum

Words importing the singular shall, where applicable, include the plural and *vice versa*, and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. Words importing persons include corporations.

Any reference to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act and used in this Circular shall have the meaning assigned to it under the Companies Act.

Any reference to a time of day shall be a reference to Singapore time.

CONTENTS

	Page
LETTER TO SHAREHOLDERS	
1. Introduction	5
2. The Share Purchase Mandate	5
3. The Scheme	13
4. Directors' and Substantial Shareholders' Interests	21
5. Extraordinary General Meeting	21
6. Action to be taken by Shareholders	22
7. Responsibility Statement	22
8. Documents for Inspection	22
APPENDIX I – RULES OF THE CHIP ENG SENG EMPLOYEES' SHARE OPTION SCHEME 2001	23
NOTICE OF EXTRAORDINARY GENERAL MEETING	40
PROXY FORM	

CHIP ENG SENG CORPORATION LTD

(Incorporated in the Republic of Singapore)

Directors:-

Lim Tiam Seng (*Executive Chairman*)
Lim Tiang Chuan (*Managing Director*)
Lim Ling Kwee (*Executive Director*)
Chia Lee Meng Raymond (*Executive Director*)
Yeo Siang Thong (*Executive Director*)
Goh Chee Wee (*Independent Director*)
Hoon Tai Meng (*Independent Director*)

Registered Office:-

69 Ubi Crescent, #06-01
CES Building
Singapore 408561

28 June 2001

Dear Shareholders,

1. INTRODUCTION

The Board has convened an EGM to be held on 18 July 2001 to seek Shareholders' approvals for the following proposals:

- (a) adopting the mandate of the Shareholders to allow the Company to purchase issued Shares; and
- (b) the adoption of the Chip Eng Seng Employees' Share Option Scheme 2001.

This Circular sets out information relating to, and the reasons for, the proposals.

2. THE SHARE PURCHASE MANDATE

2.1 Background

The Companies Act was amended on 18 November 1998 to, among other things, introduce provisions that allow a Singapore-incorporated company to purchase or otherwise acquire its issued ordinary shares. As required under the Companies Act, Article 10 of the Articles of Association of the Company expressly permits the Company to purchase or otherwise acquire ordinary shares issued by it. Any purchase of Shares by the Company will also have to be made in accordance with, and in the manner prescribed by, the Companies Act and such other laws and regulations as may for the time being be applicable. As the Company is listed on the Official List of the SGX-ST, it is also required to comply with Clause 948 of the Listing Manual, which relates to the purchase or acquisition of issued ordinary shares in the capital of a company which is listed on the SGX-ST.

Approval is being sought from Shareholders at the EGM for the adoption of a general and unconditional mandate for the purchase by the Company of its issued Shares (the "Share Purchase Mandate"). Accordingly, a resolution will be proposed as an ordinary resolution ("Resolution 1") whereby the Share Purchase Mandate will be given to the Directors to exercise all the powers of the Company to purchase issued Shares on the terms of the Share Purchase Mandate.

If Resolution 1 is approved by Shareholders at the EGM, the authority conferred by the Share Purchase Mandate will continue in force until the annual general meeting of the Company to be held in the year 2002 (whereupon it will lapse, unless renewed at such meeting) or until it is varied or revoked by the Company in general meeting (if so varied or revoked prior to the annual general meeting to be held in the year 2002).

The authority and limitations placed on purchases of Shares by the Company under the proposed Share Purchase Mandate are summarised below:

(a) *Maximum number of Shares*

Only Shares which are issued and fully paid-up may be purchased by the Company.

The total number of Shares that may be purchased is limited to that number of Shares representing not more than ten per cent. of the issued ordinary share capital of the Company as at the date of the EGM at which the Share Purchase Mandate is approved (the "Approval Date").

(b) *Duration of Authority*

Purchases of Shares may be made, at any time and from time to time, from the Approval Date up to the earlier of:-

- (i) the date on which the next annual general meeting of the Company is held or required by law or the Articles of the Company to be held; or
- (ii) the date on which the authority contained in the Share Purchase Mandate is varied or revoked.

(c) *Manner of Purchase*

Purchases of Shares may be made on the SGX-ST ("Market Purchases") and/or otherwise than on the SGX-ST, in accordance with an equal access scheme ("Off-Market Purchases").

Market Purchases refer to purchases of Shares by the Company effected on the SGX-ST through the Central Limit Order Book (CLOB) trading system, through one or more duly licensed stockbrokers appointed by the Company for the purpose.

Off-Market Purchases refer to purchases of Shares by the Company made under an equal access scheme or schemes for the purchase of Shares from Shareholders. The Directors may impose such terms and conditions, which are not inconsistent with the Share Purchase Mandate and the Companies Act, as they consider fit in the interests of the Company in connection with or in relation to an equal access scheme or schemes. Under the Companies Act, an equal access scheme must satisfy all the following conditions:-

- (i) offers for the purchase or acquisition of issued shares shall be made to every person who holds issued shares to purchase or acquire the same percentage of their issued shares;
- (ii) all of those persons shall be given a reasonable opportunity to accept the offers made; and
- (iii) the terms of all the offers are the same, except that there shall be disregarded:-
 - (aa) differences in consideration attributable to the fact that offers may relate to shares with different accrued dividend entitlements;
 - (bb) (if applicable) differences in consideration attributable to the fact that offers relate to shares with different amounts remaining unpaid; and
 - (cc) differences in the offers introduced solely to ensure that each person is left with a whole number of shares.

In addition, the listing rules of the SGX-ST provide that, in making an Off-Market Purchase, the Company must issue an offer document to all Shareholders which must contain at least the following information:-

- (1) the terms and conditions of the offer;
- (2) the period and procedures for acceptances;
- (3) the reasons for the proposed share purchase;
- (4) the consequences, if any, of share purchases by the Company that will arise under the Singapore Code on Take-overs and Mergers or other applicable takeover rules;
- (5) whether the share purchase, if made, would have any effect on the listing of the Shares on the SGX-ST; and
- (6) details of any share purchases made by the Company in the previous 12 months (whether Market Purchases or Off-Market Purchases), giving the total number of Shares purchased, the purchase price per Share or the highest and lowest prices paid for the purchases, where relevant, and the total consideration paid for the purchases.

(d) *Maximum purchase price*

The purchase price (*excluding* brokerage, stamp duties, applicable goods and services tax and other related expenses) to be paid for the Shares will be determined by the Directors.

However, the purchase price must not exceed:-

- (i) in the case of a Market Purchase, 105 per cent. of the Average Closing Price (as defined hereinafter); and
- (ii) in the case of an Off-Market Purchase pursuant to an equal access scheme, 120 per cent. of the Highest Last Dealt Price (as defined hereinafter),

(the "Maximum Price") in either case, *excluding* related expenses of the purchase.

For the above purposes:-

"Average Closing Price" means the average of the closing market prices of a Share over the last five (5) market days, on which transactions in the Shares were recorded, preceding the day of the Market Purchase;

"Highest Last Dealt Price" means the highest price transacted for a Share as recorded on the market day on which there were trades in the Shares immediately preceding the day of the making of the offer pursuant to the Off-Market Purchase; and

"day of the making of the offer" means the day on which the Company announces its intention to make an offer for the purchase of Shares from Shareholders, stating the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase.

2.2 Status of purchased Shares

Any Share which is purchased by the Company is deemed cancelled immediately on purchase, and all rights and privileges attached to that Share expire on cancellation. All Shares purchased by the Company will be automatically delisted by the SGX-ST, and certificates in respect thereof will be cancelled and destroyed by the Company as soon as reasonably practicable following settlement of any such purchase.

2.3 Source of funds and financial effects

Under the Companies Act, any purchase of Shares must be made out of the Company's distributable profits that are available for payment as dividends but excludes any amount in the share premium account and the capital redemption reserve fund. The amount by which the Company's issued share capital is diminished on cancellation of Shares purchased must be transferred to a reserve called the "capital redemption reserve". In the event the Company implements a bonus issue of shares in the future, such reserve may be applied by the Company in paying up any unissued Shares to be allotted and issued to its Shareholders as fully-paid bonus shares.

The Company's total issued share capital will be diminished by the total nominal amount (or par value) of the Shares purchased by the Company. The purchase price paid by the Company for the Shares (*excluding* brokerage, stamp duties, applicable goods and services tax and other related expenses) will correspondingly reduce the amount available for the distribution of cash dividends by the Company.

The Company will use internal sources of funds, or a combination of internal resources and external borrowings, to finance purchases of its Shares.

It is not possible for the Company to realistically calculate or quantify the impact of purchases that may be made pursuant to the proposed Share Purchase Mandate on the net asset value and earnings per share as the resultant effect would depend on factors such as the aggregate numbers of Shares purchased, the purchase prices paid at the relevant time, and the amount (if any) borrowed by the Company to fund the purchases.

However, based on the audited accounts of the Group and Company for the financial year ended 31 December, 2000, and having regard to (a) the amount of the Company's distributable profit of approximately S\$3,137,000 as at that date and (b) the Average Closing Price for a Share on the SGX-ST of S\$0.205 at the Latest Practicable Date, it is unlikely that the Company would purchase, and the Company does not currently intend to purchase, Shares representing, in aggregate, more than ten per cent. of its total issued ordinary share capital as at the date of the EGM. The amount of distributable profits available in the year 2001 would depend on the performance of the Company in 2001. In view of the foregoing, any purchases of Shares as aforesaid is not expected to have any significant impact on the net tangible assets and earnings per share. Notwithstanding the foregoing, the Directors do not propose to exercise the proposed Share Purchase Mandate to such an extent as would have a material adverse effect on the working capital requirements of the Company or the gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

The impact of the purchase of Shares by the Company pursuant to the proposed Share Purchase Mandate on the Group's and the Company's financial positions is illustrated below. Based on the existing issued and paid-up ordinary share capital of the Company of 490,000,000 Shares as at the Latest Practicable Date, the exercise in full of the Share Purchase Mandate (assuming sufficient distributable profits) would result in the purchase of up to 49,000,000 Shares.

- (a) In a Market Purchase, assuming that the Maximum Price is S\$0.215, which is five per cent. (5 per cent.) above the average of the closing prices of the Shares over the five (5) trading days preceding the Latest Practicable Date on which transactions in the Shares were recorded, the maximum amount of funds required for the purchase of up to 14,590,697 Shares (representing not more than ten per cent. of the total issued ordinary share capital of the Company as at the date of the EGM, which is the maximum number of Shares the Company is able to purchase under and during the duration of the Share Purchase Mandate, having regard to (a) the amount of the Company's distributable profits of approximately S\$3,137,000 as at 31 December 2000 and (b) the Average Closing Price for a Share on the

SGX-ST of S\$0.205 at the Latest Practicable Date), is S\$3,137,000. On this assumption, the impact of the purchase of Shares by the Company undertaken in accordance with the proposed Share Purchase Mandate on the Company's and the Group's audited financial statements for FY2000 is as follows:

	← Group →		← Company →	
	Before Share Purchase S\$'000	After Share Purchase S\$'000	Before Share Purchase S\$'000	After Share Purchase S\$'000
<u>As at 31 December 2000</u>				
Shareholders' Funds	51,182	48,045	38,450	35,313
Net Tangible Assets (NTA)	51,182	48,045	38,450	35,313
Current Assets	63,976	60,839	6,340	3,203
Current Liabilities	59,191	59,191	3,378	3,378
Working Capital	4,785	1,648	2,962	(175)
Total Liabilities	59,692	59,692	5,872	5,872
Number of Shares ('000)	490,000	475,409	490,000	475,409
<u>Financial Ratios</u>				
NTA Per Share (cents)	10.45	10.11	7.85	7.43
Gearing	1.17	1.24	0.15	0.17
Current Ratio	1.08	1.03	1.88	0.95

Notes :-

- (1) Net tangible assets equals shareholders' funds less intangible assets.
- (2) Gearing equals total liabilities divided by shareholders' funds.
- (3) Current ratio equals current assets divided by current liabilities.

As at 31 December 2000, the Group had cash balances and fixed deposits of approximately S\$1,607,000 and S\$21,951,000 respectively. In order to effect a purchase of up to 14,590,697 Shares at the Maximum Price computed at the Last Practicable Date, cash reserves by the Company of S\$3,137,000 will be required. As illustrated above, the purchase of Shares will have the effect of reducing the working capital and the net tangible assets of the Company and Group by the dollar value of the Shares purchased. The consolidated NTA per Share of the Group as at 31 December 2000 would be decreased from 10.45 cents to 10.11 cents as a result of the reduction in the number of issued Shares.

Assuming that the purchase of Shares had taken place on 1 January 2000, the consolidated basic earnings per Share of the Group for FY2000 would be increased from 1.88 cents per Share to 1.92 cents per Share as a result of the reduction in the number of issued Shares, after taking into account interest income forgone.

- (b) In an Off-Market Purchase, assuming that the Maximum Price is S\$0.250, which is twenty per cent. (20 per cent.) above the highest price transacted on the market day preceding the day of the making of the offer pursuant to the Off-Market Purchase, the maximum amount of funds required for the purchase of up to 12,548,000 Shares (representing not more than ten

per cent. of the total issued ordinary share capital of the Company in 2001, which is the maximum number of Shares the Company is able to purchase under and during the duration of the Share Purchase Mandate, having regard to (a) the amount of the Company's distributable profits of approximately S\$3,137,000 as at 31 December 2000 and (b) the Highest Last Dealt Price for a Share on the SGX-ST of S\$0.210 at the Latest Practicable Date) is S\$3,137,000. On this assumption, the impact of the purchase of Shares by the Company undertaken in accordance with the proposed Share Purchase Mandate on the Company's and the Group's audited financial statements for the financial year ended 31 December 2000 is as follows:

	← Group →		← Company →	
	Before Share Purchase S\$'000	After Share Purchase S\$'000	Before Share Purchase S\$'000	After Share Purchase S\$'000
<u>As at 31 December 2000</u>				
Shareholders' Funds	51,182	48,045	38,450	35,313
Net Tangible Assets (NTA)	51,182	48,045	38,450	35,313
Current Assets	63,976	60,839	6,340	3,203
Current Liabilities	59,191	59,191	3,378	3,378
Working Capital	4,782	1,648	2,962	(175)
Total Liabilities	59,692	59,692	5,872	5,872
Number of Shares ('000)	490,000	477,452	490,000	477,452
<u>Financial Ratios</u>				
NTA Per Share (cents)	10.45	10.06	7.85	7.40
Gearing	1.17	1.24	0.15	0.17
Current Ratio	1.08	1.03	1.88	0.95

Notes :-

- (1) Net tangible assets equals shareholders' funds less intangible assets.
- (2) Gearing equals total liabilities divided by shareholders' funds.
- (3) Current ratio equals current assets divided by current liabilities.

As at 31 December 2000, the Group had cash balances and fixed deposits of approximately S\$1,607,000 and S\$21,951,000 respectively. In order to effect a purchase of up to 12,548,000 Shares at the Maximum Price computed at the date preceding the day of the making of the offer, cash reserves by the Company of S\$3,137,000 will be required. As illustrated above, the purchase of Shares will have the effect of reducing the working capital and the net tangible assets of the Company and Group by the dollar value of the Shares purchased. The consolidated NTA per Share of the Group as at 31 December 2000 would be decreased from 10.45 cents to 10.06 cents as a result of the reduction in the number of issued shares.

Assuming that the purchase of Shares had taken place on 1 January 2000, the consolidated basic earnings per Share of the Group for FY2000 would be increased from 1.88 cents per Share to 1.91 cents per Share as a result of the reduction in the number of issued Shares, after taking into account interest income forgone.

2.4 Tax implications

In a press release issued on 3rd December, 1998, the Inland Revenue Authority of Singapore has stated that, for income tax purposes, a distribution to shareholders out of a company's distributable profits is a payment of dividends. As a company may only purchase or acquire its own shares using its distributable profits under the Companies Act, a company which purchases or acquires its own shares will therefore be regarded as having paid a dividend to the shareholders from whom such shares are purchased or acquired. The company would therefore have to provide for the franking of the share purchases at the prevailing corporate tax rate (currently 24.5 per cent.) in the same way as if paying a taxed dividend, the amount paid by the company for such share purchases being the net dividend. It was also stated in the press release that the tax treatment of the receipt from a share purchase in the hands of the shareholders will depend on whether the disposal arises from a "market purchase" or an "off-market purchase". A disposal by shareholders of their shares through a "market purchase" will be treated like any other disposal made on the SGX-ST and the proceeds received by such shareholders from a market purchase will be treated as proceeds from the disposal of shares and not a dividend. Whether or not such proceeds are taxable in the hands of such shareholders will depend on whether such proceeds are receipt of an income or capital nature. Proceeds received by shareholders in an "off-market purchase" will be treated as receipt of a dividend. Unless the Company has paid the amount out of exempt income so that the dividend is an exempt dividend, the shareholders will be assessed to tax on the gross amount of the notional dividend and be allowed a credit for the tax deducted at source (currently 24.5 per cent.) of the grossed up amount.

Shareholders should note that the foregoing is not to be regarded as advice on the tax position of any Shareholder. Shareholders who are in doubt as to their respective tax positions or the tax implications of Share purchases by the Company, or, who may be subject to tax whether in or outside Singapore, should consult their own professional advisers.

2.5 Listing Rules

The Listing Rules restrict a listed company to purchasing shares by way of Market Purchases at a price per share which is not more than five per cent. above the "average closing market price", being the average of the closing market prices of the shares over the last five (5) market days, on which transactions in the shares were recorded, before the day on which the purchases were made. The Maximum Price for a Share in relation to Market Purchases by the Company, referred to in paragraph 2.1 above, conforms to this restriction.

Additionally, the Listing Rules also specify that a listed company shall report all purchases or acquisitions of its shares to the SGX-ST not later than 9.00 a.m. (a) in the case of a Market Purchase, on the market day following the day of purchase of any of its shares and (b) in the case of an Off-Market Purchase under an equal access scheme, on the second market day after the close of acceptances of the offer. Such announcement must include details of the total number of shares authorised for purchase, the date of purchases, the total number of shares purchased, the purchase price per share, the highest and lowest prices paid for such shares, the total purchase consideration, the cumulative number of shares purchased to date and the number of issued share after purchase, in the form prescribed under the Listing Rules.

While the Listing Rules do not expressly prohibit any purchase of shares by a listed company during any particular time or times, because the listed company would be regarded as an "insider" in relation to any proposed purchase or acquisition of its issued shares, the Company will not undertake any purchase of Shares pursuant to the proposed Share Purchase Mandate at any time after any matter or development of a price-sensitive nature has occurred or has been the subject of consideration and/or a decision of the Board until such price-sensitive information has been publicly announced. In particular, in line with the best practices guide on securities dealings issued by the SGX-ST, the Company will not purchase or acquire any Shares through Market Purchases during the period of one month immediately preceding the announcement of the Company's interim (half-year) results and the annual (full-year) results respectively.

2.6 Listing Status

The Company is required under Clause 926 of the SGX-ST Listing Manual to ensure that at least ten per cent. of its Shares are in the hands of the public. The “public”, as defined under Clause 101 of the SGX-ST Listing Manual, are persons other than the Directors, Chairman and substantial shareholders of the Company and its subsidiaries, as well as the associates of such persons.

As at the Latest Practicable Date, there are approximately 123,900,000 Shares in the hands of the public (as defined above), representing 25.29 per cent. of the issued share capital of the Company. Assuming that the Company purchases its Shares from the public through Market Purchases and/or Off-Market Purchases up to the full ten per cent. limit pursuant to the Share Purchase Mandate, the number of Shares in the hands of the public would be reduced to 74,900,000 Shares, representing 16.98 per cent. of the issued share capital of the Company.

In view of the foregoing, the Company is of the view that there is, at the present, a sufficient number of Shares in public hands that would permit the Company to potentially undertake purchases of its Shares through Market Purchases and/or Off-Market Purchases up to the full ten per cent. limit pursuant to the Share Purchase Mandate without:-

- (a) adversely affecting the listing status of the Shares on the SGX-ST;
- (b) causing market illiquidity; or
- (c) adversely affecting the orderly trading of Shares.

In addition to the above, the Directors will be responsible to ensure that when purchasing any Shares pursuant to the Share Purchase Mandate, at least ten per cent. of its Shares will remain in the hands of the public in accordance with Clause 926 of the SGX-ST Listing Manual.

2.7 Obligation to make a take-over offer

If as a result of any purchase or acquisition by the Company of its Shares, a Shareholder's proportionate interest in the voting capital of the Company increases, such increase will be treated as an acquisition for the purposes of the Take-over Code. If such increase results in a change in control, or as a result of such increase a Shareholder or group of Shareholders acting in concert obtain or consolidate control, it may in certain circumstances give rise to an obligation on the part of such Shareholder or Shareholders to make a take-over offer under Rule 33 of the Take-over Code.

The circumstances under which Shareholders, including Directors and persons acting in concert with them respectively will incur an obligation to make a take-over offer under Rule 33 after a purchase of Shares by the Company are set out in Practice Note 13 (“PN 13”) issued by the Securities Industry Council.

In relation to Directors and persons acting in concert with them, PN 13 provides that unless exempted (or if exempted, such exemption is subsequently revoked), Directors and persons acting in concert with them will incur an obligation to make a take-over offer if, as a result of a purchase of Shares by the Company:-

- (a) the percentage of voting rights held by such Directors and their concert parties in the Company increases to 25 per cent. or more; or
- (b) if they together hold between 25 per cent. and 50 per cent. of the Company's voting rights, their voting rights are increased by more than three per cent. in any period of 12 months.

Under the Take-over Code, persons acting in concert comprise individuals or companies who, pursuant to an agreement or understanding (whether formal or informal) co-operate, through the acquisition by any of them of shares in a company to obtain or consolidate control of that company. Unless the contrary is established, the following persons (*inter alia*) will be presumed to be acting in concert: (i) a company with any of its directors; and (ii) a company, its parent,

subsidiaries and fellow subsidiaries, and their associated companies, and companies of which such companies are associated companies, all with each other. For this purpose, ownership or control of 20 per cent. or more of the equity share capital of a company will be regarded as the test of associated company status.

The Directors are not aware of any facts or factors which suggest or imply that any particular person(s) and/or Shareholder(s) are, or may be regarded as, parties acting in concert such that their respective interests in voting shares in the capital of the Company should or ought to be consolidated, and consequences under the Take-over Code would ensue as a result of a purchase of Shares by the Company pursuant to the Share Purchase Mandate.

Shareholders who are in doubt as to whether they would incur any obligation to make a take-over offer as a result of any purchase of Shares by the Company pursuant to the Share Purchase Mandate are advised to consult their professional advisers and/or the Securities Industry Council before they acquire any Shares in the Company during the period when the Share Purchase Mandate is in force.

2.8 Rationale

The Share Purchase Mandate would give the Company the flexibility to undertake purchases of its Shares at any time, subject to market conditions, during the period when the Share Purchase Mandate is in force. Share purchases provide the Company with a mechanism to facilitate the return of surplus cash over and above its ordinary capital requirements, in an expedient and cost-efficient manner. Share purchases will also allow the Directors greater flexibility over the Company's share capital structure with a view to enhancing the earnings and/or net asset value per share.

Shareholders can be assured that purchases of its Shares by the Company would be made in circumstances where it is considered to be in the best interests of the Company. Further, the Directors do not propose to carry out purchases to such an extent that would, or in circumstances that might, result in a material adverse effect on the financial position of the Company or Group, or result in the Company being de-listed from the SGX-ST.

2.9 Recommendation

The Directors are of the opinion that the Share Purchase Mandate is in the best interest of the Company. They accordingly recommend that Shareholders vote in favour of Resolution 1.

3. **THE SCHEME**

3.1 Background

Following amendments to the Companies Act in November 1998 to allow employee share options to have a life-span of up to 10 years, and changes to the Listing Rules governing share option schemes in April 1999 to provide listed companies with greater flexibility in the structuring of their schemes and the grant of options, the Company has undertaken a review of the manner by which share-based incentives may form a component of employment compensation so as to motivate participants to better performance, strengthen their ties and dedication to the Group as well as attract new entrants to the Group, with a view to promoting staff retention and enhancing the value of the Company in the long term.

The Company is thus proposing to implement a share option scheme in the form of the Scheme. The reasons for the Scheme are set out below.

3.2 Objectives of the Scheme

The Scheme is proposed with the following primary objectives:-

- (a) the giving of recognition to achievements and contributions of participants through ownership in the equity of the Company to enable them to share in the success of the Group, leading to the development of a participatory style of management which instills loyalty and a stronger sense of identification with the long term goals of the Group;

- (b) the promotion of staff morale leading to the retention of employees of the Group whose contributions are important to the long term growth and prosperity of the Group;
- (c) the motivation of participants to optimise standards and efficiency and to maintain a high level of contribution and the encouragement of participants towards higher standards of performance and commitment by linking their performance to that of the Group's;
- (d) the attainment of harmonious employer/staff relations;
- (e) the making of total compensation more attractive and competitive in order for the Group to attract, retain and motivate talented employees; and
- (f) the enhancement of the value of the Company in the long term.

3.3 Rules of the Scheme

The rules of the Scheme, which comply with Practice Note 9h of the Listing Manual governing share option schemes of companies listed on the SGX-ST, are set out in Appendix I of this Circular.

3.4 Duration of the Scheme

The Scheme shall continue in operation at the discretion of the Scheme Committee for a maximum period of ten years commencing from its adoption by Shareholders at the EGM. The Scheme may be continued for any further period thereafter with the approval of the Company in general meeting and of any relevant authorities which may then be required.

3.5 Administration of the Scheme

The Scheme will be administered by the Scheme Committee appointed and authorised by the Board. The Scheme Committee will consist of Directors of the Company (including Directors who may be participants of the Scheme). A member of the Scheme Committee who is also a participant of the Scheme must not be involved in its deliberations and must abstain from voting in respect of any options granted or to be granted to him.

3.6 Persons eligible to participate in the Scheme

The following persons will be eligible to participate in the Scheme:-

- (i) employees of the Company or any of its subsidiaries ("Employees");
- (ii) executive directors of the Company or any of its subsidiaries ("Executive Directors"); and
- (iii) non-executive directors of the Company or any of its subsidiaries ("Non-Executive Directors") who have served on the relevant board for at least 12 months.

Persons who qualify under the categories above and who are also the Company's Controlling Shareholders or their associates may not participate in the Scheme.

The selection of, and the actual number of Shares to be offered under options to, participants of the Scheme will be determined by the Scheme Committee at its absolute discretion, which will take into account criteria such as, in the case of an Employee and an Executive Director, his rank, past performance, years of service and potential for future development. In the case of a Non-Executive Director, the Scheme Committee will also take into account the value of the contribution of his expertise, experience and knowledge as well as the ability to which such expertise, experience and knowledge may be applied for the benefit of the Group.

3.7 Types of Options

Under the rules of the Scheme, two types of options may be granted:-

(a) Market Price Options

A Market Price Option is an option over Shares with an exercise price fixed at the average prevailing market price of the Shares over the three trading days immediately preceding the grant of the option. However, the exercise price payable for a Share may not in any event be less than the nominal (par) value of the Share.

It is envisaged that Market Price Options will form the bulk of options to be granted under the Scheme. As the exercise price of a Market Price Option is fixed at the time such option is granted, the holder of a Market Price Option will realise rewards only in the event that the market price of the Shares rises above the exercise price. The size of such rewards will be in direct proportion to the amount by which the market price of the Shares rises over the exercise price of the Market Price Option. As such, the holder of a Market Price Option will stand to gain greater rewards in the event of greater improvements in the market price of the Shares. Since the market price of the Shares is directly linked to the performance of the Company, the Company believes that the participants will be more encouraged to take on responsibility for improving the performance of the Group and contribute to the appreciation in value of the Company in the long term.

(b) Discounted Options

A Discounted Option is an option over Shares with an exercise price fixed at a discount of up to 20 per cent to the average prevailing market price of the Shares over the three trading days immediately preceding the grant of the option. However, the exercise price payable for a Share may not in any event be less than the nominal (par) value of the Share.

Discounted Options may be granted in circumstances where the grant of Market Price Options may not provide a sufficient incentive to achieve the objectives of the Scheme. At present, the Company foresees that Discounted Options may be granted principally in the following circumstances:-

- (i) firstly, where it is considered more effective by the Company to reward and retain talented individuals by way of a Discounted Option rather than a Market Price Option. Such a circumstance may arise, for example, in the event that the practice of granting options with subscription prices that have a discount element becomes the general market norm. As share options become more significant components of executive remuneration packages, a discretion to grant options with discounted exercise prices will provide the Company with a means to maintain the competitiveness of the Group's compensation strategy;
- (ii) secondly, where it is more meaningful and attractive to acknowledge a participant's achievements through a discounted price option rather than paying him a cash bonus. Such a circumstance may arise, for example, where the Group needs to provide more compelling motivation for specific business units to improve their performance. In such event, grants of share options with discounted subscription prices will help to align the interests of participants to those of the Shareholders; and
- (iii) thirdly, where due to speculative forces and having regard to the historical performance of the Share price, the market price of the Shares at the time of the grant of the options are not reflective of financial performance indicators such as return on equity and/or earnings growth. With a discretion to grant options at a discount to the market price, the subscription price could be adjusted to take into account market sentiments and the dictates of external forces affecting the share market at the time that options are granted. For example, in the event that the prevailing market price of the Shares is considered to be artificially high, it may be more desirable for the Company to grant Discounted Options than to withhold or defer the grant of options

until the market price of the Shares fall to a more realistic level. In these circumstances, the quantum of the discount given will depend on the historical performance of the Share price as compared to the prevailing market prices of the Shares during the price fixing period for the options.

The quantum of any discount given will be determined by the Scheme Committee upon on a case by case basis, taking into account the individual merits pertaining to the specific participant to whom the option is to be granted, and the objective that is desired to be achieved by the Company through the grant of that option. In assessing the merits of each case, consideration will be given to criteria such as (but not limited to) the seniority and performance of the participant and (where applicable) the contribution of the participant to the success and development of the Company and/or Group. The discount quantum may differ from one participant to another depending on the individual merits of the case and the prevailing market conditions at the time of grant (for instance, in the event that the prevailing market price of the Shares is considered to be artificially high), but pursuant to current guidelines shall not exceed 20 per cent. of the prevailing market price of a Share at the time of grant. By including a maximum discount quantum to the fullest extent currently permitted by the SGX-ST as a feature of the Scheme, the Company would have the maximum flexibility to utilise the discount feature to meet the objectives and/or address the contingencies described above. The Company believes that the inclusion of a discount pricing feature in the Scheme will benefit the Company by giving it the flexibility to package its options to participants in an attractive and constructive manner.

Discounted Options may be granted to any category of eligible participants at the discretion of the Scheme Committee. However, such Discounted Options will be granted to Non-Executive Directors only if the Scheme Committee is satisfied that such grants are justified by there being specific contributions by such participants which are identified as being likely to result in a present or future financial enhancement or increased profitability to the Group. If such grants are not so justified, Market Price Options will be granted instead.

The flexibility to grant the two types of options above allows the Company to structure the grant of options, including combining options set at different subscription prices, to participants of the Scheme having regard to the position and responsibilities of the participant, the objectives and expectations of the Company in making the grant to that participant, the performance of the Group, and the prevailing market and economic conditions, where applicable. A combination of more than both types of options may be granted to a participant.

3.8 Scheme Size

The aggregate number of Shares over which options may be granted pursuant to the Scheme, when added to the number of Shares issued and issuable in respect of all options granted under the Scheme shall not exceed 15 per cent. of the issued ordinary share capital of the Company on the date preceding the grant of an option. As at the Latest Practicable Date, the issued share capital of the Company was 490,000,000 Shares and on the basis of such issued share capital, the Company may grant options under the Scheme in respect of up to 73,500,000 Shares. It is currently anticipated that there will be 85 persons who will be eligible to participate in the Scheme. Assuming that the full Scheme size of 15 per cent. of the issued share capital is utilised over the ten-year duration of the Scheme, options in respect of a total of 73,500,000 Shares may be granted over ten years. On this basis, options in respect of an average of 7,350,000 Shares may be granted each year over the duration of the Scheme. Assuming that there are 85 eligible participants in the Scheme, the Company may grant an option to each eligible participant every year in respect of an average of 86,470 Shares. The Company considers that such number of Shares comprised under an option granted to a participant will be sufficient to provide adequate incentive to him or her.

Shareholders should note that the above figures, which have been provided on the basis of information available as at the Latest Practicable Date, have been set out solely for the purposes of illustration and are not in any way indicative of the actual number of Shares over which an option may be granted to a participant. The actual number of Shares to be offered under options to

participants in the Scheme will be determined by the Scheme Committee at its absolute discretion, taking into account criteria as discussed in Paragraph 3.6 above. Shareholders should also note that the figures set out above may change in the event of any changes after the Latest Practicable Date in the issued share capital of the Company and the number of eligible participants in the Scheme.

3.9 Grant of Options

There will not be any fixed periods for the grant of options under the Scheme. Offers of the grant of options may be made at any time and from time to time at the discretion of the Scheme Committee. This will allow the Company to have the flexibility of timing the grant of options to coincide with, for example, salary and/or performance reviews. Under the rules of the Scheme, however, in the event that an announcement on any matter of an exceptional nature involving unpublished price sensitive information is imminent, offers may only be made on or after the fifth market day from the date on which the aforesaid announcement is released.

3.10 Acceptance of Options

The procedures and formalities for the acceptance of options under the Scheme are set out in the rules of the Scheme, which provide, for example, that offers of options made to grantees, if not accepted by the grantees within 30 days from the date of the offer, will lapse. Upon acceptance of the offer, the grantee must pay to the Company a consideration of S\$1.00.

3.11 Exercise of Options

A Market Price Option may be exercised during an exercise period commencing on the first anniversary of the date of grant of the option, or such later date as the Scheme Committee shall specify based on a vesting schedule to be determined by the Scheme Committee on the date of grant of such option. Such exercise period will expire, in the case of a Market Price Option granted to an Employee or an Executive Director, on the day preceding the tenth anniversary of the date of grant of the option and, in the case of a Market Price Option granted to a Non-Executive Director, on the day preceding the fifth anniversary of the date of grant of the option.

A Discounted Option may be exercised during an exercise period commencing on the second anniversary of the date of grant of the option, or such later date as the Scheme Committee shall specify based on a vesting schedule to be determined by the Scheme Committee on the date of grant of such option. Such exercise period will expire, in the case of a Discounted Option granted to an Employee or an Executive Director, on the day preceding the tenth anniversary of the date of grant of the option and, in the case of a Discounted Option granted to a Non-Executive Director, on the day preceding the fifth anniversary of the date of grant of the option.

The Scheme Committee will also have the discretion to impose conditions on the exercise of the options, such as the imposition of a vesting schedule to limit the number of Shares in respect of which the option may be exercised during various points in time in the option exercise period applicable to that option.

3.12 Termination of Options

Special provisions in the Scheme deal with the lapse or earlier exercise of options in circumstances which include (i) the termination of the participant's employment in the Group; (ii) the cessation of directorship of a participant who is a director of the Group; (iii) the bankruptcy of the participant; (iv) the death of the participant; (v) a take-over of the Company; and (vi) the winding-up of the Company.

3.13 Rights of Shares Arising from Exercise of Options

Shares arising from the exercise of options shall be subject to the provisions of the Memorandum and Articles of Association of the Company. The Shares so allotted will upon issue rank *pari passu* in all respects with the then existing issued Shares except that the new Shares shall not be entitled to any dividend or other distribution the record date for which precedes the relevant date of the exercise of the option.

3.14 Modifications to the Scheme

Subject to the prior approval of the SGX-ST and such other regulatory authorities as may be necessary, the rules may be altered by a resolution of the Scheme Committee provided that no alteration shall adversely affect the rights attached to options granted prior to such alteration except with the consent in writing of the participants, nor shall any alteration be made to particular rules to the advantage of participants except with the prior sanction of the Company in general meeting.

3.15 Disclosures to be made in Future Annual Reports

Subject to the Scheme being approved by Shareholders at the EGM, the Company will make the following disclosures (as applicable) in its annual reports for the year ending 31st December, 2001 and future financial years for so long as the Scheme continues to be in operation:-

- (a) The names of the members of the Scheme Committee administering the Scheme.
- (b) The information required in the table below for the following participants:
 - (i) Directors;
 - (ii) Participants (other than those in (b)(i) above) who receive options granted pursuant to the Scheme which in aggregate, represent 5 per cent. or more of the total number of Shares available under the Scheme.

Name of participant	Shares under options granted during financial year under review (including terms)	Aggregate Shares under options granted since commencement of Scheme to end of financial year under review	Aggregate Shares under options granted exercised since commencement of Scheme to end of financial year under review	Aggregate Shares under options outstanding as at end of financial year under review

- (c) The number and proportion of Shares under options granted at a discount of ten per cent. or less during the financial year under review.
- (d) The number and proportion of Shares under options granted at a discount of more than ten per cent. during the financial year under review.

3.16 Rationale for Participation of Non-Executive Directors

Participation in the Scheme is being extended to Non-Executive Directors as the Company considers these persons to be in a position to provide valuable support and independent input to the Group in the form of experience, knowledge and expertise that can assist in furthering the business interests of the Group, and/or provide the Company with strategic or significant alliances or opportunities. The Company recognises that it is important to the well-being and stability of the Group that the Company acknowledges the services and contributions made by Non-Executive Directors, and that the Group continues to receive their support and contributions.

At present, the total remuneration package applicable to Non-Executive Directors consists solely of directors' fees. Such form of remuneration may not be adequate as it may not always be possible to compensate such persons for their contributions or to provide incentives fully or appropriately by way of extra directors' fees (as such extra directors' fees would result in an increase in the Company's operating expenses and would, consequently, reduce the profitability of the Company). Having examined the best practices of other companies both local and overseas,

the Company recognises that it will need to incorporate a significant equity component in the Non-Executive Directors' total remuneration package in order to give recognition to such persons for their special assistance or extra efforts. In order to minimise any potential conflicts of interests, the Company does not intend to grant options of significant sizes to Non-Executive Directors. In particular, in the event that any options are granted to the independent Directors of the Company, the quantum of such options will not be of such significance as will affect or compromise the independence of such Directors. In this connection, it is anticipated that the aggregate number of shares under options granted to Non-Executive Directors over the ten-year duration of the Scheme will not amount to more than ten per cent. of the total number of shares available for grant of options under the Scheme. In addition, in the event that any conflicts of interests arise in any matter to be decided upon by the Board of Directors, the Company will request that the relevant Non-Executive Director abstain from voting on such matter.

By implementing the Scheme, the Company will have the means to acknowledge and give recognition to any outstanding achievements and contributions made by Non-Executive Directors. The Company will consider, *inter alia*, the contributions of such persons to the success and development of the Group when selecting them for participation in the Scheme. For the purposes of assessing their contributions, the Scheme Committee may adopt a performance framework which incorporates financial and/or non-financial performance measurement criteria including, but not limited to the financial benefit or financial enhancement to the Group through any deals or transactions entered into by the Group as a result of the contributions of such Non-Executive Directors as well as the value of other contributions such as the introduction of new contacts or business opportunities.

It is hoped that by implementing the Scheme, the Company will strengthen its working relationships with the participants by inculcating in them a stronger and more lasting sense of identification with the Group. The Scheme will also operate to attract, retain and incentivise its participants to higher standards of performance as well as encourage greater dedication and loyalty by enabling the Company to give recognition to past contributions and services as well as motivating participants generally to contribute towards the Company's long-term prosperity.

3.17 Rationale for Options to be Granted at a Discount

The flexibility of the Company to grant Discounted Options under the Scheme with exercise prices fixed at a discount of not more than 20 per cent. (which is the maximum discount currently permitted under the Listing Rules) is intended to, *inter alia*, provide the Company with the maximum flexibility to structure the Group's rewards and benefits system to achieve the objectives of the Scheme, particularly in circumstances where the grant of Market Price Options may not provide sufficient incentive to achieve these objectives. These circumstances are discussed in paragraph 3.7(b) above.

While the Company is seeking Shareholders' approval at the EGM to grant options having subscription prices that represent a discount of up to 20 per cent. of the market price, it is the Company's present intention that the subscription price will be at the market price.

3.18 Accounting Treatment of Options

In accordance with the Company's application of Singapore accounting standards ("SAS"), under these standards as currently applied, the grant of options under the Scheme will not result in a direct impact on the Company's profitability, as in contrast with the payment of cash bonuses, no cash outlay would be expended by the Company or the Group at the time of the grant of such options. However, whenever options are granted by the Company to subscribe for new Shares in its capital, such options have a fair value at the time of grant. The fair value of an option at the time of grant is the estimated amount (derived from applying pricing models developed to value traded options) that a willing buyer would pay a willing seller for the option on the grant date. While share options such as those to be granted under the Scheme are non-transferable and are not traded on the SGX-ST the application of such pricing models to options granted pursuant to the Scheme would result in a fair value being attributed to those options at the time of their grant.

Under the Scheme, the grantee who is granted an option pays a nominal consideration of S\$1.00 to the Company, on his acceptance of the offer of the option. In so far as such options are granted at a consideration which is less than their fair value at the time of grant, there will be a cost to the Company (in that the Company will receive, a consideration that is less than the fair value of the option), the size of which will depend, among other things, on the amount of options granted pursuant to the Scheme, and whether the options are granted at the market price or at a discount to the market price of the Shares. It should be noted that in general, the higher the discount applicable to an option is, the higher the cost will be to the Company in respect of such option. In addition, the longer the option period is in relation to an option, the higher the cost will be to the Company in respect of such option. If U.S. accounting standards were to be applied (instead of SAS), such cost to the Company would be required to be charged to the Company's profit and loss account at the time that the options are granted as a compensation expense, and would impact on the operating profits of the Company.

Subject as aforesaid, as and when the options are exercised, the cash inflow will add to the net tangible assets ("NTA") of the Company and its share capital base will grow. Where options are granted with subscription prices that are set at a discount to the market prices for the Shares prevailing at the time of the grant of such options, the amount of the cash inflow to the NTA of the Company on the exercise of such options would be diminished by the quantum of the discount given, as compared with the cash inflow that would have been receivable by the Company had the options been granted at the market price of the Shares prevailing at the time of the grant. The amount of diminution would depend ultimately on the number of Shares comprised in options that are exercisable at subscription prices adjusted with a discount to the market price, and the quantum of the discount.

3.19 Approvals

In-principle approval has been received from the SGX-ST for the listing of, and quotation for, the new Shares to be issued pursuant to the Scheme, subject to Shareholders' approval. The approval of the SGX-ST shall not be taken as an indication of the merits of the proposal to be tabled at the EGM.

Shareholders' approval will be sought at the EGM for the Scheme (including the allotment and issue of new Shares pursuant to the exercise of options granted under the Scheme), and for authorisation for options to be granted under the Scheme with a subscription price set at a discount to the market price. These proposals will be tabled as Ordinary Resolutions (respectively, "Resolution 2" and "Resolution 3") at the EGM.

3.20 Recommendation

Each of Mr Lim Tiam Seng and Mr Lim Tiang Chuan is a Controlling Shareholder of the Company and, under the rules of the Scheme, would not be eligible to participate in the Scheme. Mr Lim Ling Kwee is the son of Mr Lim Tiam Seng and Mr Chia Lee Meng Raymond is the son-in-law of Mr Lim Tiam Seng. As a result of their relationship with Mr Lim Tiam Seng, each of Mr Lim Ling Kwee and Mr Chia Lee Meng Raymond is an associate of a Controlling Shareholder of the Company and, under the rules of the Scheme, would not be eligible to participate in the Scheme. For the reasons set out in Paragraphs 3.1 and 3.2 above, each of Mr Lim Tiam Seng, Mr Lim Tiang Chuan, Mr Lim Ling Kwee and Mr Chia Lee Meng Raymond is of the view that the adoption of the proposed Scheme is in the interests of the Company and accordingly recommends that Shareholders vote in favour of Resolution 2 and Resolution 3.

As each of Mr Yeo Siang Thong, Mr Goh Chee Wee and Mr Hoon Tai Meng would be eligible to participate in the Scheme, these Directors have refrained from making any recommendation to the shareholders in respect of the Scheme. Each of these Directors will also abstain from voting at the EGM on Resolutions 2 and 3 in respect of any Shares held by them respectively.

All employees of the Group, other persons who will benefit or are likely to benefit from the implementation of the Scheme must abstain from voting at the EGM on Resolutions 2 and 3 in respect of Shares respectively held by them.

The Company will also procure that the Directors and other persons who are potential participants of the Scheme, and who are to abstain personally from voting any Shares held by them at the EGM on the Ordinary Resolutions pertaining to the Scheme, will decline from accepting appointment as proxies for Shareholders to vote on the Ordinary Resolutions pertaining thereto unless (i) the Shareholder concerned does not have any personal interest in relation to the Ordinary Resolution(s) in question, and (ii) such Shareholder shall have given specific instructions in his Proxy Form as to the manner in which his votes are to be cast in respect of the relevant Ordinary Resolution(s).

4. DIRECTORS' AND SUBSTANTIAL SHAREHOLDERS' INTERESTS

The interests of the Directors in the share capital of the Company as at the Latest Practicable Date are as follows:

	<u>Direct</u>		<u>Deemed</u>	
	<u>No. of Shares</u>	<u>% of total issued Shares</u>	<u>No. of Shares</u>	<u>% of total issued Shares</u>
<u>Executive Directors</u>				
Lim Tiam Seng	116,400,000	23.76	52,300,000	10.67
Lim Tiang Chuan	73,000,000	14.90	1,000,000	0.20
Lim Ling Kwee	36,500,000	7.45	—	—
Chia Lee Meng Raymond	500,000	0.10	14,800,000	3.02
Yeo Siang Thong	500,000	0.10	—	—
<u>Non-Executive Directors</u>				
Goh Chee Wee	50,000	0.01	—	—
Hoon Tai Meng	50,000	0.01	—	—

Mr Goh Chee Wee and Mr Hoon Tai Meng are independent Directors of the Company and are also members of the Audit Committee of the Company. Each of Mr Goh and Mr Hoon has a direct shareholding interest in 50,000 Shares, representing approximately 0.01 per cent. of the issued share capital of the Company. The Board is of the view that such shareholding is not of such significance as will affect or compromise the independence of Mr Goh and Mr Hoon.

The interests of the Company's substantial shareholders in the share capital of the Company as at the Latest Practicable Date are as follows:

	<u>Direct</u>		<u>Deemed</u>	
	<u>No. of Shares</u>	<u>% of total issued Shares</u>	<u>No. of Shares</u>	<u>% of total issued Shares</u>
<u>Substantial Shareholders</u>				
Kwek Lee Keow	36,500,000	7.45	132,200,000	26.98
Lim Tian Back	36,500,000	7.45	—	—
Lim Tian Moh	36,500,000	7.45	—	—

5. EXTRAORDINARY GENERAL MEETING

The EGM, notice of which is set out on page 40 of this Circular, will be held at 69 Ubi Crescent, #06-01, CES Building, Singapore 408561 on 18 July 2001 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the ordinary resolution (with or without modifications) set out in the notice of EGM.

6. ACTION TO BE TAKEN BY SHAREHOLDERS

If a Shareholder is unable to attend the EGM and wishes to appoint a proxy to attend and vote on his behalf, he should complete, sign and return the attached proxy form in accordance with the instructions printed thereon as soon as possible and, in any event, so as to reach the registered office of the Company at 69 Ubi Crescent, #06-01, CES Building, Singapore 408561, by not later than 10.00 a.m. on 16 July 2001. The completion and return of the proxy form by a Shareholder will not prevent him from attending and voting at the EGM in person if he so wishes.

7. RESPONSIBILITY STATEMENT

The Directors collectively and individually accept responsibility for the accuracy of the information given in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and opinions expressed in this Circular are fair and accurate and that there are no material facts the omission of which would make any statement in this Circular misleading.

8. DOCUMENTS FOR INSPECTION

The following documents may be inspected at the registered office of the Company during normal business hours from the date hereof up to and including the date of the EGM:

- (a) the memorandum and articles of association of the Company; and
- (b) the annual report of the Company for FY2000.

Yours faithfully

For and on behalf of the Board of Directors of
CHIP ENG SENG CORPORATION LTD

Lim Tiam Seng
Executive Chairman

RULES OF THE CHIP ENG SENG EMPLOYEES' SHARE OPTION SCHEME 2001

1. Name of the Scheme

The Scheme shall be called the "Chip Eng Seng Employees' Share Option Scheme 2001".

2. Definitions

2.1 Unless the context otherwise requires, the following words and expressions shall have the following meanings:-

"Act"	The Companies Act, Chapter 50 of Singapore as amended or modified from time to time
"Adoption Date"	The date on which the Scheme is adopted by the Company in general meeting
"Aggregate Subscription Cost"	The total amount payable for the Shares to be subscribed for on the exercise of an Option
"Auditors"	The auditors for the time being of the Company
"Board"	The board of directors of the Company
"CDP"	The Central Depository (Pte) Limited
"Company"	Chip Eng Seng Corporation Ltd, a company incorporated in Singapore
"Controlling Shareholder"	A person or persons exercising control over the Company
"CPF"	Central Provident Fund
"Depository Agent"	An entity registered as a depository agent with CDP for the purpose of maintaining securities sub-accounts for its own account and for the account of others
"Discounted Option"	The right to subscribe for Shares granted pursuant to the Scheme and for the time being subsisting, and in respect of which the Subscription Price is determined in accordance with Rule 7.2
"Employee"	An employee of the Group who is selected by the Scheme Committee to participate in the Scheme in accordance with Rule 4.1(a)
"Executive Director"	A director of the Company and/or its subsidiaries who performs an executive function and who is selected by the Scheme Committee to participate in the Scheme in accordance with Rule 4.1(b)
"Grantee"	A person to whom an offer of an Option is made
"Group"	The Company and its subsidiaries
"Market Price Option"	The right to subscribe for Shares granted pursuant to the Scheme and for the time being subsisting, and in respect of which the Subscription Price is determined in accordance with Rule 7.1

“Market Day”	A day on which the SGX-ST is open for trading in securities
“Market Price”	In relation to a Share, shall mean the price as determined in accordance with Rule 7.1
“Non-Executive Director”	A director of the Company and/or its subsidiaries who does not perform an executive function and who is selected by the Scheme Committee to participate in the Scheme in accordance with Rule 4.1(c)
“Offering Date”	The date on which the offer of the grant of an Option is made pursuant to Rule 6.1
“Option”	A Market Price Option or a Discounted Option, as the case may be
“Option Period”	The period for the exercise of an Option, being:- <ul style="list-style-type: none"> (a) in the case of a Market Price Option granted to an Employee or Executive Director, a period commencing on the first anniversary of the Offering Date and expiring on the day preceding the tenth anniversary of such Offering Date, subject as provided in Rules 8 and 9; and (b) in the case of a Market Price Option granted to a Non-Executive Director, a period commencing on the first anniversary of the Offering Date and expiring on the day preceding the fifth anniversary of such Offering Date, subject as provided in Rules 8 and 9; (c) in the case of a Discounted Option granted to an Employee or Executive Director, a period commencing on the second anniversary of the Offering Date and expiring on the day preceding the tenth anniversary of such Offering Date, subject as provided in Rules 8 and 9; and (d) in the case of a Discounted Option granted to a Non-Executive Director, a period commencing on the second anniversary of the Offering Date and expiring on the day preceding the fifth anniversary of such Offering Date, subject as provided in Rules 8 and 9
“Participant”	The holder of an Option
“Rules”	The rules of the Scheme, as the same may be amended from time to time
“Scheme”	The Chip Eng Seng Employees’ Share Option Scheme 2001, as modified or altered from time to time
“Scheme Committee”	A committee comprising directors of the Company, duly authorised and appointed by the Board to administer the Scheme
“SGX-ST”	Singapore Exchange Securities Trading Limited
“Shares”	Shares of S\$0.05 each in the capital of the Company

“Subscription Price”	The price at which (subject to any adjustment pursuant to Rule 11) a Participant shall subscribe for each Share upon the exercise of an Option as determined in accordance with Rule 7.1 in relation to a Market Price Option, and Rule 7.2 in relation to a Discounted Option
“Subsidiary”	A subsidiary of the Company from time to time, within the meaning ascribed to it under the Act
“Trading day”	A day on which there is a transaction in the Shares on the SGX-ST
“Vesting Schedule”	A schedule of dates falling within the Option Period at which Shares which are the subject of the Option shall, in whole or in part, vest in the Participant
“\$”	Singapore dollars
“%”	Percentage or per centum

2.2 For the purposes of the Scheme:-

- (a) in relation to a company, “control” means the capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of that company;
- (b) unless rebutted, a person who holds directly or indirectly, a shareholding of 15 per cent. or more of the Company’s issued share capital shall be presumed to be a Controlling Shareholder; and
- (c) in relation to a Controlling Shareholder, his “associate” means his parent, sibling, spouse, or child (including adopted or step child).

2.3 Any reference in the Scheme to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Act and used in these Rules shall have the meaning assigned to it under the Act.

2.4 Words importing the singular number shall include the plural number where the context admits and vice versa. Words importing the masculine gender shall include the feminine gender where the context admits.

2.5 Any reference to a time of day shall be a reference to Singapore time.

3. Objectives

The Scheme is a share incentive scheme. The purpose of the Scheme is to provide an opportunity for Employees, Executive Directors and Non-Executive Directors to participate in the equity of the Company so as to motivate them to greater dedication, loyalty and higher standards of performance. The Scheme is proposed on the basis that it is important to acknowledge the contribution, which is essential to the well-being and prosperity of the Group, made by these persons. The Company, by adopting the Scheme, will give these persons a real and meaningful stake in the Company and will help to achieve the following objectives:

- (a) the giving of recognition to achievements and contributions of participants through ownership in the equity of the Company to enable them to share in the success of the Group, leading to the development of a participatory style of management which instills loyalty and a stronger sense of identification with the long term goals of the Group;
- (b) the promotion of staff morale leading to the retention of employees of the Group whose contributions are important to the long term growth and prosperity of the Group;

- (c) the motivation of participants to optimise standards and efficiency and to maintain a high level of contribution and the encouragement of participants towards higher standards of performance and commitment by linking their performance to that of the Group's;
- (d) the making of total compensation more attractive and competitive in order for the Group to attract, retain and motivate talented employees; and
- (e) the enhancement of the value of the Company in the long term.

4. Eligibility

- 4.1 The following persons, subject to any provisions as may be determined by the SGX-ST, shall be eligible to participate in the Scheme at the absolute discretion of the Scheme Committee:
- (a) confirmed employees of the Company and/or its subsidiaries who have attained the age of 21 years;
 - (b) directors of the Company and/or its subsidiaries who perform an executive function; and
 - (c) non-executive directors of the Company and/or its subsidiaries who have served on the board of directors of the Company or the relevant subsidiary for not less than 12 months.
- 4.2 Persons who are Controlling Shareholders or their associates shall (notwithstanding that they may meet the eligibility criteria in Rule 4.1) not participate in the Scheme.
- 4.3 Persons who are eligible to participate in the Scheme may also be eligible to participate in any other share option or incentive scheme implemented by the Company for their benefit. There is no restriction on the participation by persons selected to participate in the Scheme also participating in any other share option or incentive scheme implemented by any other company, whether within or outside the Group.
- 4.4 All participation is subject to the Rules herein and shall be at the absolute discretion of the Scheme Committee. In determining the participants, the Scheme Committee will take into account, *inter alia*, the objectives of the Scheme detailed in Rule 3 above.

5. Limitations under the Scheme

- 5.1 The aggregate number of Shares over which the Scheme Committee may grant Options on any date, when added to the number of Shares issued and issuable in respect of all Options granted under the Scheme, shall not exceed 15 per cent. of the issued share capital of the Company on the day preceding that date.
- 5.2 The number of Shares comprised in any Option to be offered to any eligible Participant in accordance with the Scheme shall be determined at the absolute discretion of the Scheme Committee, who shall take into account criteria such as the rank, the past performance, years of service and potential for future development of that employee.

6. Grant and acceptance of Options

- 6.1 The Committee may, subject as provided in Rule 5, grant Options at any time and from time to time, provided that in the event that an announcement on any matter of an exceptional nature involving unpublished price sensitive information is imminent, Options may only be granted on or after the fifth market day from the date on which the aforesaid announcement is released.
- 6.2 The Letter of Offer to grant the Option shall be in, or substantially in, the form set out in Schedule A-1, subject to such modification as the Scheme Committee may from time to time determine.
- 6.3 An Option shall be personal to the Participant to whom it is granted and shall not be transferred (other than to a Participant's personal representative on the death of that Participant), charged, assigned, pledged or otherwise disposed of, in whole or in part, unless with the prior approval of the Scheme Committee.

- 6.4 The grant of an Option under this Rule 6 shall be accepted within thirty (30) days from the Offering Date of that Option and, in any event, not later than 5.00 p.m. on the thirtieth (30th) day from such Offering Date by completing, signing and returning the Acceptance Form in, or substantially in, the form set out in Schedule B-1, subject to such modification as the Scheme Committee may from time to time determine, accompanied by payment of \$1.00 as consideration. The Grantee may accept or refuse the whole or part of the offer.
- 6.5 If a grant of an Option is not accepted in the manner as provided in Rule 6.4, such offer shall, upon the expiry of the thirty (30) day period, automatically lapse and become null, void and of no effect.

7. Subscription Price

- 7.1 The Subscription Price for each Share in respect of which a Market Price Option is exercisable shall be determined by the Scheme Committee at its absolute discretion, and fixed by the Scheme Committee at a price equal to the average of the last dealt prices for a Share, as determined by reference to the daily official list made available by the SGX-ST, for the 3 consecutive trading days immediately preceding the Offering Date of that Option, rounded up to the nearest whole cent.
- 7.2 The Subscription Price for each Share in respect of which a Discounted Option is exercisable shall be determined by the Scheme Committee at its absolute discretion, and fixed by the Scheme Committee at a price, rounded up to the nearest whole cent, which is set at a discount to the Market Price (as determined in accordance with Rule 7.1), provided that the maximum discount shall not exceed 20 per cent. of the Market Price.
- 7.3 Where the Subscription Price, as determined under the foregoing provisions of this Rule 7, is less than the par value of a Share, the Subscription Price shall be the par value.
- 7.4 The Subscription Price shall be subject to adjustment pursuant to Rule 11.
- 7.5 Subject as otherwise expressly provided in these Rules, a Discounted Option shall not be exercised earlier than the second anniversary of its date of grant.

8. Rights to exercise Options

- 8.1 Subject as provided in this Rule 8 and in Rule 9, each Option shall be exercisable, in whole or in part, during the Option Period applicable to that Option subject to any conditions, including a Vesting Schedule, that may be imposed by the Scheme Committee in relation to the vesting of any Shares comprised in that Option.
- 8.2 An Option shall, to the extent unexercised, immediately lapse without any claim against the Company:
- (a) subject to Rules 8.3 and 8.4, upon the Participant ceasing for any reason whatsoever to be in the employment of the Group; or
 - (b) upon the bankruptcy of the Participant or the happening of any other event which results in his being deprived of the legal or beneficial ownership of such Option; or
 - (c) in the event of any misconduct on the part of the Participant as determined by the Scheme Committee in its discretion.

For the purpose of Rule 8.2(a), the Participant shall be deemed to have ceased to be so employed as of the date the notice of termination of employment is tendered by or is given to him, unless such notice shall be withdrawn prior to its effective date. For the avoidance of doubt, in the case of an Executive Director, mere cessation of performing an executive function is not deemed to be cessation of employment.

- 8.3 If a Participant ceases to be employed by the Group, as the case may be, by reason of his:-
- (a) ill health, injury or disability (in each case, evidenced to the satisfaction of the Scheme Committee);
 - (b) redundancy or retrenchment;
 - (c) retirement at or after the legal retirement age; or
 - (d) retirement before the legal retirement age with the consent of the Scheme Committee,

or any other compassionate reason approved in writing by the Scheme Committee, he may, at the discretion of the Scheme Committee, exercise any Option either in full or only in respect of such Shares comprised in that Option for which he would have been entitled to exercise pursuant to Rule 8.1 within such period after the date of such cessation of employment as may be determined by the Scheme Committee in its absolute discretion (but before the expiration of the Option Period in respect of that Option), and upon the expiration of such period, the Option shall lapse. The Committee in exercising such discretion, may allow the Option to be exercised at any time (and, in relation to an Incentive Price Option, provided that the Scheme Committee has determined that the Option is not to be cancelled, the Subscription Price applicable to that Option shall be the initial Subscription Price subject to any discount determined by the Scheme Committee), notwithstanding that the date of exercise of such Option falls on a date prior to the first day of the Option Period in respect of such Option.

- 8.4 If a Participant ceases to be employed in or to be a director in the Group:
- (a) by reason of the company in which he is employed or of which he is a director ceasing to be a company within the Group, or the undertaking or part of the undertaking of such company being transferred otherwise than to another company in the Group; or
 - (b) for any other compassionate reason provided the Scheme Committee gives its consent in writing,

he may, at the absolute discretion of the Scheme Committee exercise any Option then remaining unexercised in the manner and at the times provided in Rule 8.1 or within such other period during the Option Period as may be determined by the Scheme Committee in its absolute discretion, provided that Rules 8.2, 8.3, 8.5 and 8.6 will continue to apply during that period as though the event contemplated in this Rule 8.4 did not occur.

- 8.5 If a Participant dies and at the date of his death holds any unexercised Option, such Option may, at the discretion of the Scheme Committee, be exercised by the duly appointed personal representatives of the Participant within such period after his death as may be determined by the Scheme Committee in its absolute discretion (but before the expiration of the Option Period in respect of that Option), and upon the expiration of such period, the Option shall lapse. Such exercise shall, at the discretion of the Scheme Committee, either be in full or only in respect of such Shares comprised in that Option for which the Participant would have been entitled to exercise pursuant to Rule 8.1. The Scheme Committee may, in exercising such discretion, allow the Option to be exercised at any time, notwithstanding that the date of exercise of such Option falls on a date prior to the first day of the Option Period in respect of such Option.

- 8.6 If, for any reason whatsoever, a Participant (being an Executive Director or a Non-Executive Director) ceases to be a member of the relevant board, any Option then held by him shall, to the extent unexercised, immediately lapse without any claim against the Company, unless otherwise determined by the Scheme Committee in its absolute discretion. Such discretion shall be exercised by the Scheme Committee where there are strong justifications under the prevailing circumstances to do so, including, but not limited to, any unfairness caused to the Participant by the lapse of the Option, taking into account factors including, but not limited to, the reasons for the Participant's cessation in his relevant position and the past contributions made by the Participant. In exercising such discretion, the Scheme Committee may also determine the period during which

such Option may continue to be exercisable, provided that such period may not in any event exceed the Option Period applicable to such Option. Such exercise shall, at the discretion of the Scheme Committee, either be in full or only in respect of such Shares comprised in that Option for which the Participant would have been entitled to exercise pursuant to Rule 8.1. The Scheme Committee may, in exercising such discretion, allow the Option to be exercised at any time (and, in relation to an Incentive Price Option, provided that the Scheme Committee has determined that the Option is not to be cancelled, the Subscription Price applicable to that Option shall be the initial Subscription Price subject to any discount determined by the Scheme Committee), notwithstanding that the date of exercise of such Option falls on a date prior to the first day of the Option Period in respect of such Option.

9. Take-over and winding-up of the Company

9.1 Notwithstanding Rule 8 but subject to Rule 9.5, in the event of a take-over being made for the Shares, a Participant shall be entitled to exercise in full or in part any Option held by him and as yet unexercised, in the period commencing on the date on which such offer is made or, if such offer is conditional, the date on which such offer becomes or is declared unconditional, as the case may be, and ending on the earlier of:-

(a) the expiry of six months thereafter, or such later date as may be determined, prior to the expiry of such six-month period, at the recommendation of the offeror and with the approvals of the Scheme Committee and the SGX-ST; or

(b) the date of expiry of the Option Period relating thereto,

whereupon the Option then remaining unexercised shall lapse, Provided that if during such period, the offeror becomes entitled or bound to exercise rights of compulsory acquisition under the provisions of the Act and, being entitled to do so, gives notice to the Participants that it intends to exercise such rights on a specified date, the Option shall remain exercisable by the Participant until the expiry of such specified date or the expiry of the Option Period relating thereto, whichever is earlier. Any Option not so exercised shall lapse provided that the rights of acquisition or obligations to acquire shall have been exercised or performed, as the case may be. If such rights or obligations have not been exercised or performed, the Option shall, subject to Rule 8, remain exercisable until the expiry of the Option Period relating thereto.

9.2 If under the Act, the court sanctions a compromise or arrangement proposed for the purposes of, or in connection with, a scheme for the reconstruction of the Company or its amalgamation with another company or companies, each Participant shall be entitled, notwithstanding Rule 8 but subject to Rule 9.5, to exercise any Option then held by him during the period commencing on the date upon which the compromise or arrangement is sanctioned by the court and ending either on the expiry of sixty (60) days thereafter or the date upon which the compromise or arrangement becomes effective, whichever is later (but not after the expiry of the Option Period relating thereto), whereupon the Option shall lapse and become null and void.

9.3 If an order is made for the winding-up of the Company on the basis of its insolvency, all Options, to the extent unexercised, shall lapse and become null and void.

9.4 In the event of a members' voluntary winding-up (other than for amalgamation or reconstruction), the Participant shall be entitled, within thirty (30) days of the passing of the resolution of such winding-up (but not after the expiry of the Option Period relating thereto), to exercise any unexercised Option, after which such unexercised Option shall lapse and become null and void.

9.5 If in connection with the making of a general offer referred to in Rule 9.1 or the scheme referred to in Rule 9.2 or the winding-up referred to in Rule 9.4, arrangements are made (which are confirmed in writing by the Auditors or other qualified financial consultants, acting only as experts and not as arbitrators, to be fair and reasonable) for the compensation of Participants, whether by the continuation of their Options or the payment of cash or the grant of other options or otherwise, a Participant holding an Option, as yet not exercised, may not, at the discretion of the Scheme Committee, be permitted to exercise that Option as provided for in this Rule 9.

- 9.6 To the extent that an Option is not exercised within the periods referred to in this Rule 9, it shall lapse and become null and void.
- 9.7 Any exercise of an Incentive Price Option pursuant to this Rule 9 shall, provided that the Scheme Committee has determined that the Option is not to be cancelled, be at the initial Subscription Price applicable to that Option subject to any discount determined by the Scheme Committee.

10. Exercise of Options

- 10.1 An Option may be exercised, in whole or in part, by a Participant giving notice in writing to the Company in, or substantially in, the form of the Exercise Notice set out in Schedule C-1, subject to such modification as the Scheme Committee may from time to time determine. The Exercise Notice, duly completed, must be accompanied by a remittance for the Aggregate Subscription Cost in respect of the Shares for which that Option is exercised and any other documentation which the Scheme Committee may require, failing which the Option shall not be treated as validly exercised. All payments made shall be made by cheque, cashiers' order, banker's draft or postal order made out in favour of the Company or such other mode of payment as may be acceptable to the Company.
- 10.2 Subject to such consents or other required action of any competent authority under any regulations or enactments for the time being in force as may be necessary and subject to the compliance with the terms of the Scheme and the Memorandum and Articles of Association of the Company, the Company shall, within ten (10) market days after the exercise of an Option, allot the relevant Shares and, within five (5) market days from the date of the allotment of the relevant Shares, despatch the share certificates in respect of such Shares by ordinary post or such other mode as the Scheme Committee may deem fit.
The Company shall, as soon as practicable after such allotment, apply to the SGX-ST (and any other stock exchange on which the Shares are quoted or listed) for permission to deal in and for quotation of such Shares.
- 10.3 Shares which arise on the exercise of an Option by a Participant shall be allotted and issued in the name of CDP for credit of the relevant number of Shares to the securities account of that Participant maintained with CDP, the securities sub-account maintained with a Depository Agent or (if applicable) the CPF investment account maintained with a CPF agent bank, Provided that Shares which arise on the exercise of an Option by a Participant who is not a Singapore citizen shall (if so required by the relevant authorities) be allotted and issued in the name of CDP for the credit of the relevant number of Shares to a separate securities sub-account to be opened by that Participant with a Depository Agent appointed by that Participant which has been selected by the Company and shall, for as long as the Shares are beneficially owned by that Participant, remain so registered. Such securities sub-account shall be opened by that Participant solely for the purpose of transacting in Shares allotted to that Participant pursuant to the Scheme. All charges levied by the Depository Agent including transaction charges and all expenses incurred by the Depository Agent from time to time shall be borne by that Participant.
- 10.4 Shares allotted and issued on exercise of an Option shall be subject to all the provisions of the Memorandum and Articles of Association of the Company, and shall rank in full for all entitlements, including dividends or other distributions declared or recommended in respect of the then existing Shares, the Record Date for which is on or after the relevant date upon which such exercise occurred, and shall in all other respects rank *pari passu* with other existing Shares then in issue. "Record Date" means the date fixed by the Company for the purposes of determining entitlements to dividends or other distributions to or rights of holders of Shares.
- 10.5 The Company shall keep available sufficient unissued Shares to satisfy the full exercise of all Options for the time being remaining capable of being exercised.

11. Variation of Capital

11.1 If a variation in the issued share capital of the Company (whether by way of a capitalisation of profits or reserves or rights issue, reduction, sub-division or consolidation) shall take place, then:-

- (a) the Subscription Price for the Shares, the par value, class and/or number of Shares comprised in the Option to the extent unexercised; and/or
- (b) the par value, class and/or number of Shares over which Options may be granted under the Scheme,

shall be adjusted in such manner as the Scheme Committee may determine to be appropriate and except in relation to a capitalisation issue, upon the written confirmation by the Auditors or other qualified financial consultants appointed by the Scheme Committee (acting only as experts and not as arbitrators), that in their opinion, such adjustment is fair and reasonable.

11.2 Notwithstanding the provisions of Rule 11.1, no such adjustment shall be made:

- (a) if as a result, the Subscription Price shall fall below the par value of a Share and if such adjustment would but for this paragraph (a) result in the Subscription Price being less than the par value of a Share, the Subscription Price payable shall be the par value; and
- (b) unless the Scheme Committee after considering all relevant circumstances, considers it equitable to do so.

11.3 The following (whether singly or in combination) shall not be regarded as events requiring adjustment:-

- (a) any issue of securities as consideration for an acquisition or a private placement of securities;
- (b) any increase in the number of issued Shares as a consequence of the exercise of options or other convertibles issued from time to time by the Company entitling holders thereof to acquire new Shares in the capital of the Company (including the exercise of any Options granted pursuant to the Scheme and any previous scheme(s));
- (c) any issue of Shares pursuant to any scrip dividend scheme for the time being of the Company; and
- (d) any reduction in the number of issued Shares as a result of the cancellation of issued Shares purchased by the Company by way of market purchase(s) effected on the SGX-ST pursuant to a share purchase mandate (or any renewal thereof) given by the shareholders of the Company in general meeting and for the time being in force.

11.4 Upon any adjustment required to be made pursuant to the foregoing provisions of this Rule 11, the Company shall notify the Participant (or his duly appointed personal representatives, where applicable) in writing and deliver to him (or his duly appointed personal representatives, where applicable) a statement setting forth the Subscription Price thereafter in effect and the par value, class and/or number of Shares thereafter to be issued on the exercise of the Option. Any adjustment shall, unless otherwise stated therein, take effect upon such written notification being given.

12. Administration of the Scheme

12.1 The Scheme shall be administered by the Scheme Committee in its absolute discretion with such powers and duties as are conferred on it by the Board, provided that no member of the Scheme Committee shall participate in any deliberation or decision in respect of Options granted or to be granted to him.

12.2 The Scheme Committee shall have the power, from time to time, to make and vary such regulations (not being inconsistent with the Scheme) for the implementation and administration of the Scheme as it thinks fit.

12.3 Any decision of the Scheme Committee made pursuant to any provision of the Scheme (other than a matter to be certified by the Auditors or other qualified financial consultants) shall be final and binding, including any decisions pertaining to the quantum of discount pursuant to Rule 7.2, or to disputes as to the interpretation of the Scheme or any rule, regulation, procedure thereunder or as to any rights under the Scheme.

13. Notices

13.1 Any notice required to be given by a Participant to the Company shall be sent or made to the registered office of the Company or such other addresses as may be notified by the Company to him in writing.

13.2 Any notices or documents required to be given to a Participant or any correspondence to be made between the Company and the Participant shall be given or made by the Scheme Committee (or such person(s) as it may from time to time direct) on behalf of the Company and shall be delivered to him by hand or sent to him at his home address according to the records of the Company or the last known address of the Participant and if sent by post, shall be deemed to have been given on the day following the date of posting.

14. Modifications to the Scheme

14.1 Any or all the provisions of the Scheme may be modified and/or altered at any time and from time to time by resolution of the Scheme Committee, except that:-

(a) no modification or alteration shall alter adversely the rights attaching to any Option granted prior to such modification or alteration except with the consent in writing of such number of Participants who, if they exercised their Options in full, would thereby become entitled to not less than three-quarters in nominal amount of all the Shares which would fall to be allotted upon exercise in full of all outstanding Options;

(b) the definitions of "Group", "Employee", "Executive Director", "Non-Executive Director", "Controlling Shareholder", "Scheme Committee", "Option Period", "Grantee", "Participant" and "Subscription Price" and the provisions of Rules 4, 5, 6, 7, 9, 10.1, 10.4, 12 and this Rule 14 shall not be altered to the advantage of Participants except with the prior approval of the Company's shareholders in general meeting; and

(c) no modification or alteration shall be made without the prior approval of the SGX-ST, or any other stock exchange on which the Shares are quoted or listed, and such other regulatory authorities as may be necessary.

14.2 Notwithstanding anything to the contrary contained in Rule 14.1, the Scheme Committee may at any time by resolution (and without other formality, save for the prior approval of the SGX-ST) amend or alter the Scheme in any way to the extent necessary to cause the Scheme to comply with any statutory provision or the regulations of any regulatory or other relevant authority or body (including the SGX-ST).

14.3 Written notice of any modification or alteration made in accordance with this Rule 14 shall be given to all Participants.

15. Terms of employment unaffected

The terms of employment of a Participant shall not be affected by his participation in the Scheme, which shall neither form part of such terms nor entitle him to take into account such participation in calculating any compensation or damages on the termination of his employment for any reason.

16. Duration of the Scheme

- 16.1 The Scheme shall continue to be in force at the discretion of the Scheme Committee, subject to a maximum period of ten (10) years commencing on the Adoption Date, provided always that the Scheme may continue beyond the above stipulated period with the approval of the Company's shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.
- 16.2 The Scheme may be terminated at any time by the Scheme Committee or by resolution of the Company in general meeting subject to all relevant approvals which may be required and if the Scheme is so terminated, no further Options shall be offered by the Company hereunder.
- 16.3 The termination of the Scheme shall not affect Options which have been granted and accepted as provided in Rule 6.4, whether such Options have been exercised (whether fully or partially) or not. Any Vesting Schedule appertaining to Options granted continues to apply and the Scheme Committee continues to have authority in the case of outstanding Incentive Price Options to cancel such Options and to fix any discounts as the case may be.

17. Taxes

All taxes (including income tax) arising from the exercise of any Option granted to any Participant under the Scheme shall be borne by that Participant.

18. Costs and expenses

- 18.1 Each Participant shall be responsible for all fees of CDP, the Depository Agent or (if applicable) the CPF agent bank relating to or in connection with the issue and allotment of any Shares pursuant to the exercise of any Option in CDP's name, the deposit of share certificate(s) with CDP, the Participant's securities account with CDP, or the Participant's securities sub-account with a Depository Agent or (if applicable) CPF investment account with a CPF agent bank.
- 18.2 Save for the taxes referred to in Rule 17 and such other costs and expenses expressly provided in the Scheme to be payable by the Participants, all fees, costs and expenses incurred by the Company in relation to the Scheme including but not limited to the fees, costs and expenses relating to the allotment and issue of Shares pursuant to the exercise of any Option shall be borne by the Company.

19. Disclaimer of liability

Notwithstanding any provisions herein contained, the Scheme Committee, the Board and the Company shall not under any circumstances be held liable for any costs, losses, expenses and damages whatsoever and howsoever arising in any event, including but not limited to the Company's delay in issuing the Shares or applying for or procuring the listing of the Shares on the SGX-ST in accordance with Rule 10.2 (and any other stock exchange on which the Shares are quoted or listed).

20. Disclosures in annual reports

The following disclosures (as applicable) will be made by the Company in its annual reports for so long as the Scheme continues in operation:

- (a) The names of the members of the Scheme Committee administering the Scheme.

(b) The information required in the table below for the following Participants:

(i) Directors;

(ii) Participants (other than Directors) who receive Options granted pursuant to the Scheme which in aggregate, represent 5 per cent. or more of the total number of Shares available under the Scheme.

Name of participant	Shares under options granted during financial year under review (including terms)	Aggregate Shares under options granted since commencement of Scheme to end of financial year under review	Aggregate Shares under options granted exercised since commencement of Scheme to end of financial year under review	Aggregate Shares under options outstanding as at end of financial year under review

(c) The number and proportion of Shares under Options granted at a discount of ten per cent. or less during the financial year under review.

(d) The number and proportion of Shares under Options granted at a discount of more than ten per cent. during the financial year under review.

21. Disputes

Any disputes or differences of any nature arising hereunder shall be referred to the Scheme Committee and its decision shall be final and binding in all respects.

22. Governing law

The Scheme shall be governed by, and construed in accordance with, the laws of the Republic of Singapore. The Participants, by accepting Options in accordance with the Scheme, and the Company submit to the exclusive jurisdiction of the courts of the Republic of Singapore.

CHIP ENG SENG EMPLOYEES' SHARE OPTION SCHEME 2001

LETTER OF OFFER

Date: _____

Serial No: _____

To: [Name]
 [Designation]
 [Address]

Private and Confidential

Dear Sir/Madam

We have the pleasure of informing you that you have been selected to participate in the Chip Eng Seng Employees' Share Option Scheme 2001 (the "Scheme"). Terms as defined in the Scheme shall have the same meanings when used in this letter.

In consideration of the payment of a sum of S\$1.00, an offer is hereby made to grant you an option (the "Option") under the Scheme as follows:-

- (a) Type of Option** : Market Price Option/Discounted Option^
- (b) Entitlement** : The Option will entitle you, upon exercise, to subscribe for and be allotted _____ new ordinary shares of S\$0.05 each in the capital of Chip Eng Seng Corporation Ltd at the Subscription Price set out in paragraph (c) below
- (c) Subscription Price** : S\$_____ per new ordinary share of S\$0.05 each in the capital of Chip Eng Seng Corporation Ltd.
- *The Subscription Price represents a discount of _____% to the Market Price.
- (d) Option Period** : The Option may be exercised after _____.

Note: A Market Price Option may be exercised after the 1st anniversary of the Offering Date, and a Discounted Option may be exercised after the 2nd anniversary of the Offering Date.

The Option will expire on _____.

Note: An Option granted to an Employee or Executive Director will expire on the day preceding the 10th anniversary of the Offering Date. An Option granted to a Non-Executive Director will expire on the day preceding the 5th anniversary of the Offering Date.

(e) Vesting Schedule : You may exercise the Option in the following proportions during the periods set out in the table below:-

	Vesting Period	Percentage of Option which may be exercised
(i)	From _____	Up to _____%
(ii)	From _____	Up to _____% (inclusive of (i) above)
(iii)	From _____	Up to _____% (inclusive of (i) and (ii) above)
(iv)	From _____	Up to 100%

The Option is personal to you and shall not be transferred, charged, pledged, assigned or otherwise disposed of by you, in whole or in part, except with the prior approval of the Scheme Committee duly authorised and appointed to administer the Scheme.

The Option shall be subject to the terms of the Scheme, a copy of which is enclosed herewith.

If you wish to accept the offer, please sign and return the enclosed Acceptance Form with a sum of S\$1.00 not later than 5.00 p.m. on _____, failing which this offer will lapse.

Yours faithfully

CHIP ENG SENG EMPLOYEES' SHARE OPTION SCHEME 2001

ACCEPTANCE FORM

Serial No: _____

To: The Scheme Committee
Chip Eng Seng Employees' Share Option Scheme 2001
69 Ubi Crescent, #06-01,
CES Building,
Singapore 408561.

Private and Confidential

Dear Sirs,

I have read your Letter of Offer dated _____ and agree to be bound by the terms of the Letter of Offer and the Scheme referred to therein. Terms defined in your Letter of Offer shall have the same meanings when used in this Acceptance Form.

I hereby accept the *Market Price Option/Discounted Option in the terms set out in your Letter of Offer and enclose cash of S\$1.00 as consideration for the Option.

I understand that I am not obliged to exercise the Option.

I further acknowledge that you have not made any representation to induce me to accept the offer and that the terms of the Letter of Offer and this Acceptance Form constitute the entire agreement between us relating to the offer.

Please print in block letters

Name in full : _____
Designation : _____
Address : _____
Nationality : _____
*NRIC/Passport No. : _____
Signature : _____
Date : _____

* Delete accordingly

CHIP ENG SENG EMPLOYEES' SHARE OPTION SCHEME 2001

FORM OF EXERCISE OF OPTION

To: The Scheme Committee
Chip Eng Seng Employees' Share Option Scheme 2001
69 Ubi Crescent, #06-01,
CES Building,
Singapore 408561.

Private and Confidential

Dear Sirs,

1. Pursuant to your Letter of Offer dated _____ and my acceptance thereof, I hereby exercise the *Market Price Option/Discounted Option to subscribe for _____ new ordinary shares of S\$0.05 each in the capital of Chip Eng Seng Corporation Ltd (the "Company") at S\$_____ for each share.
2. I enclose a *cheque/cashier's order/banker's draft/postal order no. _____ for S\$_____ by way of subscription for the number of the said shares now to be subscribed.
3. I agree to subscribe for the said Shares subject to the terms of the Letter of Offer, the Chip Eng Seng Employees' Share Option Scheme 2001 and the Memorandum and Articles of Association of the Company.
4. I declare that I am subscribing for the said Shares for myself and not as a nominee for any other person.
5. I request the Company to allot and issue the said Shares referred to in paragraph 1 above in the name of The Central Depository (Pte) Limited ("CDP") and to deliver to CDP the certificate(s) for the Shares for credit to my securities account as specified below and I hereby agree to bear such fees or other charges as may be imposed by CDP and any stamp duty payable in respect thereof:-

* (i) Direct Securities Account No.: _____

or

* (ii) Sub-Account No. and Name of Depository Agent

Sub-Account No.: _____

Name of Depository Agent: _____

or

* (iii) CPF Investment Account No. and Name of Agent Bank

CPF Investment Account No.: _____

Name of Agent Bank: _____

Please print in block letters

Name in full : _____

Designation : _____

Address : _____

Nationality : _____

*NRIC/Passport No. : _____

Signature : _____

Date : _____

* Delete accordingly

CHIP ENG SENG CORPORATION LTD

(Incorporated in the Republic of Singapore)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an EXTRAORDINARY GENERAL MEETING of the Company will be held at 69 Ubi Crescent, #06-01, CES Building, Singapore 408561 on 18 July 2001 at 10.00 a.m. for the purpose of considering and, if thought fit, passing with or without any modifications, Resolutions 1, 2 and 3 set out in the notice convening this meeting, each of which will be proposed as an Ordinary Resolution:

Ordinary Resolution 1

Share Purchase Mandate

That:-

(a) for the purposes of Sections 76C and 76E of the Companies Act, Chapter 50 (the "Act"), the Directors of the Company be and are hereby authorised to exercise all the powers of the Company to purchase or otherwise acquire ordinary shares of S\$0.05 each ("Shares") in the issued share capital of the Company not exceeding in aggregate the Prescribed Limit (as hereafter defined), at such price or prices as may be determined by the directors of the Company from time to time up to the Maximum Price (as hereafter defined), whether by way of:-

- (i) market purchases (each a "Market Purchase") on the Singapore Exchange Securities Trading Limited ("SGX-ST"); and/or
- (ii) off-market purchases (each an "Off-Market Purchase") effected otherwise than on the SGX-ST in accordance with any equal access schemes as may be determined or formulated by the directors of the Company as they consider fit, which schemes shall satisfy all the conditions prescribed by the Act,

and otherwise in accordance with all other laws, regulations and rules of the SGX-ST as may for the time being applicable (the "Share Purchase Mandate");

(b) unless varied or revoked by the Company in general meeting, the authority conferred on the directors of the Company pursuant to the Share Purchase Mandate may be exercised by the directors at any time and from time to time during the period commencing from the passing of this Resolution and expiring on the earlier of:-

- (i) the date on which the next annual general meeting of the Company is held; or
- (ii) the date by which the next annual general meeting of the Company is required by law to be held;

(c) in this Resolution:-

"Prescribed Limit" means ten per cent. of the issued ordinary share capital of the Company as at the date of the passing of this Resolution; and

"Maximum Price" in relation to a Share to be purchased, means an amount (*excluding* brokerage, stamp duties, applicable goods and services tax and other related expenses) not exceeding:-

- (i) in the case of a Market Purchase: 105 per cent. of the Average Closing Price
- (ii) in the case of an Off-Market Purchase: 120 per cent. of the Highest Last Dealt Price

where:-

“Average Closing Price” is the average of the closing market prices of a Share over the last five (5) market days, on which transactions in the Shares were recorded, preceding the day of the Market Purchase;

“Highest Last Dealt Price” means the highest price transacted for a Share as recorded on the market day on which there were trades in the Shares immediately preceding the day of the making of the offer pursuant to the Off-Market Purchase; and

“day of the making of the offer” means the day on which the Company announces its intention to make an offer for the purchase of Shares from shareholders of the Company stating the purchase price (which shall not be more than the Maximum Price calculated on the foregoing basis) for each Share and the relevant terms of the equal access scheme for effecting the Off-Market Purchase; and

- (d) the directors of the Company be and are hereby authorised to complete and do all such acts and things (including executing such documents as may be required) as they may consider expedient or necessary to give effect to the transactions contemplated by this Resolution.

Ordinary Resolution 2

Chip Eng Seng Employees' Share Option Scheme 2001

That:-

- (a) the share option scheme to be known as the Chip Eng Seng Employees' Share Option Scheme 2001 (the “Scheme”), under which options will be granted to persons who, *inter alia*, are (i) employees of the Company and/or its subsidiaries and (ii) Executive Directors and Non-Executive Directors of the Company and/or its subsidiaries, who being eligible are selected to participate in the Scheme (collectively, the “Grantees”) to subscribe for new ordinary shares of S\$0.05 each in the capital of the Company (“Shares”), particulars of which are set out in Appendix I of the Company's Circular to Shareholders dated 28 June 2001, be and is hereby approved; and
- (b) the Directors of the Company be and are hereby authorised:
- (i) to establish and administer the Scheme;
 - (ii) to modify and/or amend the Scheme from time to time provided that such modification and/or amendment is effected in accordance with the provisions of the Scheme and 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 Scheme; and
 - (iii) to offer and grant options to Grantees in accordance with the provisions of the Scheme (including, subject to the passing of Resolution 3 below, options over Shares at a subscription price per Share set at a discount to the market price of a Share) and to allot and issue from time to time such number of Shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options granted under the Scheme provided that the aggregate number of Shares to be issued pursuant to the Scheme shall not exceed 15 per cent. of the issued share capital of the Company from time to time, and provided further that the aggregate number of Shares to be offered to certain categories of Grantees collectively and individually during the entire operation of the Scheme (subject to adjustments, if any, made under the Scheme) shall not exceed such limits or (as the case may be) sub-limits as may be prescribed in the Scheme.

Ordinary Resolution 3

Grant of options under the Scheme at a discount to market price

That subject to and contingent upon the passing of Resolution 2 above, approval be and is hereby given for offers and grants of options to be made pursuant to and during the subsistence of the Chip Eng Seng Employees' Share Option Scheme 2001 ("Scheme") to persons who are eligible and are selected to participate in the Scheme, to subscribe for new ordinary shares of S\$0.05 each in the capital of the Company ("Shares") at such subscription prices ("Subscription Prices") as may be determined and fixed in accordance with the provisions of the Scheme, including any Subscription Prices which are set at discounts to the market prices for the Shares (as determined in accordance with the provisions of the Scheme) at the time of the grants of such options, provided that:

- (a) the maximum discount shall not, in any case, exceed 20 per cent. of the relevant market price for a Share; and
- (b) the Subscription Price for a Share shall not be less than the par value of the Share.

By Order of the Board

Lim Tiam Seng
Executive Chairman
Singapore, 28 June 2001

Notes:

1. A member entitled to attend and vote at the Extraordinary General Meeting is entitled to appoint a proxy or proxies (not more than two) to attend and vote in his/her behalf. A proxy need not be a member of the Company.
2. The instrument appointing the proxy or proxies must be under the hand of the appointor or of his/her attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its Common Seal or by an attorney or an officer of the corporation duly authorised.
3. The instrument appointing the proxy or proxies must be deposited at the Company's Registered Office at 69 Ubi Crescent, #06-01, CES Building, Singapore 408561 not less than 48 hours before the time appointed for the Extraordinary General Meeting.

Please see notes overleaf before completing this proxy form.

CHIP ENG SENG CORPORATION LTD

(Incorporated in the Republic of Singapore)

PROXY FORM - EXTRAORDINARY GENERAL MEETING

I/We _____ (Name)

of _____ (Address)

being a member/members of CHIP ENG SENG CORPORATION LTD ("the Company") hereby appoint:

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

and/or (delete as appropriate)

Name	Address	NRIC/Passport Number	Proportion of Shareholdings (%)

as my/our proxy/proxies to attend and to vote for me/us on my/our behalf and, if necessary, to demand a poll, at the Extraordinary General Meeting of the Company to be held at 69 Ubi Crescent, #06-01, CES Building, Singapore 408561 on 18 July 2001 at 10.00 a.m., and at any adjournment thereof.

(Please indicate with an "X" in the spaces provided whether you wish your vote(s) to be cast for or against the Resolutions as set out in the notice of Extraordinary General Meeting. In the absence of specific directors, the proxy/proxies will vote or abstain as he/they may think fit, as he/they will on any other matter arising at the Extraordinary General Meeting.

No.	Ordinary Resolutions	To be used on a show of hands		To be used in the event of a poll	
		For	Against	Number of Votes for	Number of Votes Against
1.	To approve the Share Purchase Mandate				
2.	To approve the adoption of the Chip Eng Seng Employees' Share Option Scheme 2001 ("Scheme") and the allotment and issue of shares pursuant to the exercise of options granted under the Scheme				
3.	To approve the grant of options under the Scheme at a discount				

Dated this _____ day of _____ 2001.

Total Number of Shares in:	No. of Shares
(a) CDP Register	
(b) Register of Members	

Signature of Shareholder(s)
or Common Seal of Corporate Shareholder

To be valid, this form must be lodged at the Company's Registered Office at 69 Ubi Crescent, #06-01, CES Building, Singapore 408561 not less than 48 hours before the time appointed for the Extraordinary General Meeting.



Notes:

1. Please insert the total number of Shares held by you. If you have Shares entered against your name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of Shares. If you have Shares registered in your name in the Register of Members of the Company, you should insert that number of Shares. If you have Shares entered against your name in the Depository Register and Shares registered in your name in the Register of Members, you should insert the aggregate number of Shares entered against your name in the Depository Register and registered in your name in the Register of Members. If no number is inserted, the instrument appointing a proxy or proxies shall be deemed to relate to all the shares held by you.
2. A member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint a proxy or proxies (not more than two) to attend and vote on his/her behalf. A proxy need not be a member of the Company.
3. Where a member appoints two proxies, the appointments shall be invalid unless he/she specifies the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
4. The instrument appointing a proxy or proxies must be deposited at the Registered Office of the Company at 69 Ubi Crescent, #06-01, CES Building, Singapore 408561, not less than 48 hours before the time appointed for the Extraordinary General Meeting.
5. The instrument appointing a proxy or proxies must be under the hand of the appointor or of his attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed under its common seal or by an attorney or an officer of the corporation duly authorised.
6. A corporation which is a member may authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Extraordinary General Meeting, in accordance with Section 179 of the Companies Act, Chapter 50 of Singapore.
7. Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the power of attorney (or other authority) or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid

General:

The Company shall be entitled to reject the instrument appointing a proxy or proxies if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in the instrument appointing a proxy or proxies. In addition, in the case of Shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies lodged if the member, being the appointor, is not shown to have Shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Extraordinary General Meeting, as certified by The Central Depository (Pte) Limited to the Company.