
UNDERWRITING

PLACING UNDERWRITERS

CPY International
Worldwide Finance (Securities) Limited
G.K. Goh Securities (H.K.) Limited
JS Cresvale Capital Limited
Asian Capital (Corporate Finance) Limited
First Shanghai Securities Limited
Guotai Junan Securities (Hong Kong) Limited
China Southern Securities (Hong Kong) Limited
Okasan International (Asia) Limited
Shenyin Wanguo Capital (H.K.) Limited
Sun Hung Kai International Limited
SBI E2-Capital Securities Limited
Polaris Securities (Hong Kong) Limited
Vinc Capital Limited
Crosby Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Placing and Underwriting Agreement

Pursuant to the Placing and Underwriting Agreement, the Company is offering the New H Shares for subscription by, and the Vendors are offering the Sale H Shares for sale to, investors, in each case by way of the Placing, all at the Placing Price. In addition, the Company and the Vendors have granted the Over-allocation Option to the Sole Bookrunner and Lead Manager exercisable by it (for itself and on behalf of the Placing Underwriters) at any time and from the date of this prospectus up to 23 November 2003 to require the Company to issue up to an aggregate of 22,058,824 additional New H Shares and the Vendors to sell up to an additional 2,205,882 Sale H Shares, representing in aggregate 15% of the Placing Shares initially offered under the Placing to cover over-allocations under the Placing, if any. The Over-allocation Option will only be exercisable by the Lead Manager (for itself and on behalf of the Placing Underwriters) where the Placing Price is HK\$0.70 or above.

Subject to the GEM Listing Committee granting the listing of, and permission to deal in, the H Shares (subject only to allotment by the Company or, as the case may be, transfer from the Vendors) on or before 23 November 2003 (or such later date as the Sole Bookrunner and Lead Manager (for itself and on behalf of the Placing Underwriters) may agree in writing with the Company (for itself and on behalf of the Vendors)) and to certain other conditions set out in the Placing and Underwriting Agreement being satisfied by the times referred to in the Placing and Underwriting Agreement, the Placing Underwriters have severally agreed to subscribe for or purchase (or procure places to subscribe for or purchase) the Placing Shares according to their respective underwriting commitment.

Grounds for termination

The Sole Bookrunner and Lead Manager (for itself and on behalf of the Placing Underwriters) is entitled to terminate the Placing and Underwriting Agreement by notice in writing to the Company (for itself and on behalf of the Vendors) at any time prior to 6:00 p.m. (Hong Kong time) on the date immediately preceding the Listing Date upon occurrence of the following events at or prior to such time:

- (i) there shall develop, occur or come into effect:
 - (a) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or applications thereof by any court or other

UNDERWRITING

competent authority, which in the absolute opinion of the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) has or may have a material adverse effect on the business or financial conditions or prospects of the Company; or

- (b) any change in Hong Kong, the PRC, Taiwan, Asia, national, regional or international financial, political, military, industrial or economic conditions or prospects; or
- (c) any change in the conditions of the Hong Kong or international securities markets (or in conditions affecting a sector only of such market) including, for the avoidance of doubt, any significant adverse change in the index level or volume of turnover of any such markets; or
- (d) without prejudice to paragraph (b) or (c) above, the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise; or
- (e) a change or development involving a prospective change in Hong Kong, the PRC or other jurisdiction in taxation or exchange controls which will or can reasonably be expected to affect materially and adversely the Company or the present or prospective shareholders of the Company in their capacity as such; or
- (f) the imposition of economic sanctions, withdrawal of trading privileges, embargo, restraint or prohibition of import and export, in whatever form, by the U.S. or the European Union (or any member thereof) on Hong Kong or the PRC;

and any such event, in the absolute opinion of the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters), has or may have a material adverse effect on the success of the Placing, or makes it inadvisable or inexpedient to proceed with the Placing; or

- (ii) there comes to the notice of the Sponsor, the Sole Bookrunner and Lead Manager and/or the Placing Underwriters any matter or event showing any of the representations and warranties contained in the Placing and Underwriting Agreement to be untrue or inaccurate or, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any respect reasonably considered by the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) to be material or showing any of the undertakings contained in the Placing and Underwriting Agreement or other obligations or undertakings expressed to be assumed by or imposed on the Company, the Vendors, such of the Initial Management Shareholders as named in the Placing and Underwriting Agreement (“Covenantors”, all being Promoters), and the executive Directors under the Placing and Underwriting Agreement not to have been complied with in any respect considered by the Sole Bookrunner and Lead Manager to be material; or
- (iii) any material statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any respect; or
- (iv) matters have arisen or have been discovered which would, if this prospectus was to be issued at that time, constitute a material omission therefrom; or
- (v) there is any adverse change in the business or in the financial or trading position or prospects of the Company which in the absolute opinion of the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) is material in the context of the Placing.

UNDERWRITING

Undertakings

- (i) Each of the Covenantors severally undertakes to and covenants with the Company, the Sponsor, the Sole Bookrunner and Lead Manager and the Placing Underwriters that:
 - (a) he or it will fully and strictly comply with all restrictions (if any) applicable to him or it from time to time under the GEM Listing Rules and the Company Law on the disposal by it, or by the registered holder, of any Relevant Securities in respect of which he or it is (directly or indirectly), the beneficial owner, unless appropriate waiver has been granted by the Stock Exchange or other relevant authorities;
 - (b) he or it shall not sell, transfer or otherwise dispose of (or enter into any agreement to dispose of), save pursuant to a pledge or charge to an authorized institution under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) as security for a bona fide commercial loan, any of its Relevant Securities or any interest therein, or any shares held directly or indirectly by him or it of any of the Relevant Securities or interests nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his or its direct or indirect interest in the Relevant Securities during a period of 12 months (or, as regards Mr. Chen and Shaanxi Mant only, six months) from the Listing Date; and
 - (c) subject to any waiver being granted by the Stock Exchange under the GEM Listing Rules and set out in this prospectus, he or it shall enter into an escrow agreement with an escrow agent acceptable to the Stock Exchange and the Sponsor and place in escrow, with such escrow agent, his or its Relevant Securities during the restriction period applicable to him or it as referred to in sub-paragraph (b) above.
- (ii) Each of the Covenantors also severally undertakes to and covenants with the Company, the Sponsor, the Sole Bookrunner and Lead Manager and the Placing Underwriters that:
 - (a) in the event that he or it disposes of his or its Relevant Securities after the restriction under paragraph (i) above applicable to him or it lapses, all reasonable steps will be taken to ensure that such disposal will not create a false or disorderly market in the H Shares; and
 - (b) in the event that he or it pledges or charges any direct or indirect interest in the Relevant Securities or in any shares in any company controlled by him or it, which is the beneficial owner of the Relevant Securities within a period commencing on the date of the Placing and Underwriting Agreement and ending on the date when the restriction under paragraph (i) applicable to him or it lapses, he or it must inform the Company, the Sponsor and the Lead Manager immediately thereafter, disclosing to the Company, the Sponsor and the Lead Manager the details of such pledge or charge including the number and class of securities being pledged or charged and the purpose for which the pledge or charge is made and in the event that he or it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest, of such disposal or such intention to dispose and the number of securities affected.

The Company undertakes to and covenants with the Sponsor, the Sole Bookrunner and Lead Manager and the Placing Underwriters that, and each of the Covenantors and the executive Directors

UNDERWRITING

undertakes to and covenants with the Sponsor, the Sole Bookrunner and Lead Manager and the Placing Underwriters to procure that, save with the prior written consent of the Lead Manager (on behalf of the Placing Underwriters) (such consent not to be unreasonably withheld or delayed) and in compliance with the GEM Listing Rules and the applicable laws, the Company will not, save pursuant to the Placing, or the exercise of the Over-allocation Option or any capitalisation issue or any consolidation, sub-division or capital reduction of Shares or by way of scrip dividend schemes or other similar arrangement in accordance with the Articles of Association: (a) within the period of six months from the Listing Date, issue or agree to issue any shares or any other securities in the Company or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for, H Shares or any other securities in the Company; and (b) at any time during the period of 12 months from the Listing Date, unless permitted by the GEM Listing Rules, issue any shares or any other securities in the Company or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into or exchange for shares or securities in the Company so as to result in the Covenantors, either individually or taken together with the others of them, cease to be a controlling shareholder (within the meaning of the GEM Listing Rules) of the Company.

Each of the Company, the Covenantors and the executive Directors undertakes to and covenants with the Sponsor, the Lead Manager and the Placing Underwriters that, save with the prior written consent of the Sponsor (on behalf of the Placing Underwriters) (such consent not to be unreasonably withheld or delayed) and in compliance with the GEM Listing Rules and the applicable laws, the Company will not within the period of six months from the Listing Date purchase any shares or any other securities of the Company.

Commission and expenses

The Underwriters will receive a commission of 4% of the Placing Price per Placing Share, out of which they will pay any sub-underwriting commissions and selling concessions. The Sponsor will also receive an advisory and documentation fee. Such commissions, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Placing, which are estimated to amount in aggregate to approximately HK\$20 million (assuming that the Over-allocation is not exercised at all), will be payable by the Company and the Vendors in the proportion of 90.9% to 9.1%. In addition, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fees in respect of the New H Shares shall be borne by the Company solely. The Vendors shall be solely responsible for fixed transfer duty and ad valorem seller's stamp duty (if any) in respect of the sale and transfer of the Sale H Shares, the SFC transaction levy, the investor compensation levy and the Stock Exchange trading fees in respect of the Sale H Shares. The expenses incurred upon the exercise of the Over-allocation Option will be borne by the Company and the Vendors in the same proportion.