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## STRUCTURE AND CONDITIONS OF THE PLACING

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### THE PLACING PRICE PAYABLE ON SUBSCRIPTION

The Placing Price will be not more than HK\$1.15 and is expected to be not less than HK\$0.55. In addition to the Placing Price, investors are also required to pay a 1% brokerage, 0.005% Stock Exchange trading fee, 0.005% SFC transaction levy and 0.002% investor compensation levy. Assuming that the Placing Price is agreed to be HK\$1.15 per Placing Share (being the highest point of the indicative Placing Price range as set out in this prospectus), the total Placing Price payable by investors will be HK\$4,646.55 per board lot of 4,000 H Shares.

### PLACING

The Company is initially offering 147,058,824 New H Shares for subscription and the Vendors are initially offering an aggregate of 14,705,882 Sale H Shares for sale pursuant to the Placing. The Vendors are offering the Sale H Shares in accordance with the Regulations for the Reduction of State Shareholding. The Placing is fully underwritten by the Placing Underwriters subject to the terms and conditions of the Placing and Underwriting Agreement.

Pursuant to the Placing, the Placing Underwriters or selling agents nominated by the Placing Underwriters on behalf of the Company or, as the case may be, the Vendors shall initially place the 161,764,706 Placing Shares at the Placing Price (plus 1% brokerage, 0.005% Stock Exchange trading fee, 0.005% SFC transaction levy and 0.002% investor compensation levy) payable by the subscribers and/or purchasers of the Placing Shares. The Placing Shares will be placed with professional and institutional investors and other investors anticipated to have sizeable demands for the Placing Shares in Hong Kong and other parts of Asia. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary businesses involve dealing in shares and other securities and entities which regularly invest in shares and other securities.

The total number of Placing Shares to be placed pursuant to the Placing may change as a result of any exercise of the Over-allocation Option.

### TRANSFER OF SALE H SHARES

According to a letter from the MOF dated 2 July 2002, the nature of shareholdings of XITIC, BJ Holdings and Shaanxi Silk was determined as State ownership. Accordingly, each of XITIC, BJ Holdings and Shaanxi Silk is required to reduce their respective shareholdings by converting some of their Domestic Shares such interests into H Shares and offering them for sale under the Placing pursuant to the Regulations for the Reduction of State Shareholdings. XITIC, BJ Holdings and Shaanxi Silk are required to reduce an aggregate of 14,705,882 Domestic Shares, comprising 3,848,529 Domestic Shares held by XITIC, 5,922,059 Domestic Shares held by BJ Holdings and 4,935,294 Domestic Shares held by Shaanxi Silk respectively. These Domestic Shares will be transferred upon completion of the Placing to the purchasers (or their nominee) and each of the Vendors has authorised the Company to sell the 14,705,882 Sale H Shares in aggregate converted from the said 14,705,882 Domestic Shares for and on its behalf. The net proceeds arising from the sale of the 14,705,882 Sale H Shares will then be deposited into a designated bank account of the MOF.

In the event that the Over-allocation Option is exercised in full, each of XITIC, BJ Holdings and Shaanxi Silk will be required to transfer an additional 577,279 Domestic Shares, 888,309 Domestic Shares and 740,294 Domestic Shares respectively, who has also authorised the Company to sell the additional 2,205,882 Sale H Shares in aggregate converted from the said 2,205,882 Domestic Shares for and on its behalf. The net proceeds arising from the sale of the 2,205,882 Sale H Shares will then be deposited into a designated bank account of the MOF.

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All transfer of the Sale H Shares to the placees or their designated person(s) will be effected on the Company's register of members in the PRC. An indication of interest in the Placing Shares shall constitute an irrevocable instruction by the investors to the Company that the registration of all Sale H Shares in respect of which the relevant application is accepted shall be removed from the Company's principal register of members in the PRC to the Company's branch register of H Shares maintained in Hong Kong prior to the issue of certificates for H Shares to the placees or their designated person(s).

### DETERMINING THE PLACING PRICE

The Placing Underwriters are soliciting from prospective investors indications of interest in acquiring the Placing Shares. Prospective investors will be required to specify the number of Placing Shares they would be prepared to acquire either at different prices or at particular price.

The Placing Price is expected to be determined by agreement between the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) and the Company (for itself and on behalf of the Vendors) on or before 6 p.m. on 28 October 2003, or such later date as may be agreed by the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) and the Company (for itself and on behalf of the Vendors). **If the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) and the Company are not able to reach an agreement on the Placing Price by 6 p.m. on 28 October 2003 or the said later time, the Placing will not become unconditional and will lapse.** In such case, an announcement will be made on the GEM website.

If, based on the level of interest expressed by prospective investors under the book-building process, the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters, and with the consent of the Company (for itself and on behalf of the Vendors) thinks it appropriate, the indicative Placing Price range may be reduced below that stated in this prospectus. **Potential investors should be aware that the final Placing Price may be, but is not currently expected to be, lower than the indicative Placing Price range stated in this prospectus.**

In such case, an announcement will be made on the GEM website. Such announcement will also include confirmation or revision, as appropriate, of the working capital at present, the offer statistics as currently set out in the section headed "Summary" of this prospectus and any other financial information which may change as a result of any such reduction.

### CONDITIONS OF THE PLACING

Acceptance of applications for the Placing Shares under the Placing are conditional upon:

1. the GEM Listing Committee granting the listing of, and permission to deal in, the H Shares to be issued or sold pursuant to the Placing and the exercise of the Over-allocation Option;

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2. the Placing Price having been granted between Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) and the Company (for itself and on behalf of the Vendors) on or before 6 p.m. on 28 October 2003 or such later date as may be agreed by the Sole Bookrunner and Lead Manager (on behalf of the Underwriters) and the Company (for itself and on behalf of the Vendors); and
3. the obligations of the Placing Underwriters under the Placing and Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by CPY International on behalf of the Placing Underwriters), and the Placing and Underwriting Agreement not being terminated in accordance with the terms of the Placing and Underwriting Agreement or otherwise, in each case, on or before the dates and times specified in the Placing and Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 23 November 2003, being the date which is 30 days after the date of this prospectus.

**If the Sole Bookrunner and Lead Manager (on behalf of the Placing Underwriters) and the Company (for itself and on behalf of the Vendors) are not able to reach an agreement on the Placing Price by 6 p.m. on 28 October 2003, the Placing will not become unconditional and will lapse.**

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published by the Company on the GEM website on the next day following such lapse.

The Company will not issue any temporary documents of title.

### OVER-ALLOCATION OPTION

In connection with the Placing, the Company and the Vendors have granted the Over-allocation Option to the Placing Underwriters, exercisable by CPY International for itself and on behalf of the Sponsor and the Placing Underwriters, at any time and from time to time exercisable within 30 days from the date of this prospectus to require the Company to issue up to an additional 22,058,824 New H Shares, and the Vendors to sell up to an additional 2,205,882 Sale H Shares in aggregate both at the Placing Price representing approximately 15% of the Placing Shares initially being offered under the Placing solely to cover any over-allocations in the Placing, if any. Pursuant to section 3 of the Price Stabilising Rules, stabilising action may only take place, among other factors, where the total value of the New H Shares at the Placing Price is not less than HK\$100 million. Accordingly, for the purpose of compliance with the Price Stabilising Rules, the Over-allocation Option can only be exercised where the Placing Price is HK\$0.70 or above. Whether or not the Over-allocation Option is exercised in full, the proportion of the additional Sale H Shares to be converted from the Domestic Shares held by each of the Vendors and offered for sale shall be the same as the proportion of the Sale H Shares initially offered for sale by each of them under the Placing as referred to in the paragraph headed “Transfer of Sale H Shares” in this section.

The Placing Shares initially offered under the Placing will constitute approximately 25.0% of the Company’s registered share capital before the exercise of the Over-allocation Option and approximately 27.8% of the enlarged registered share capital of the Company immediately following the exercise of the Over-allocation Option in full. In the event that the Over-allocation Option is exercised, an announcement will be made on the GEM website. The Placing Underwriters or any one or more of them, as the case may be, will also receive a commission of 4% of the Placing Price in respect of the Over-allocation Option.

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### STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities.

In connection with the Placing, CPY International (on behalf of the Placing Underwriters) may over-allocate up to an aggregate of 24,264,706 additional H Shares (such over-allocations may be covered by exercising the Over-allocation Option in full or in part at any time and from time to time within 30 days from the date of this prospectus or by purchasing H Shares in the secondary market) and/or through stock borrowing arrangements from certain placees under the Placing and/or effect transactions which stabilise or maintain the market price of the H Shares at levels other than those which might otherwise prevail. Pursuant to section 3 of the Price Stabilising Rules, stabilising action may only take place, among other factors, where the total value of the New H Shares at the Placing Price is not less than HK\$100 million. Accordingly, for the purpose of compliance with the Price Stabilising Rules, any stabilisation activities can only be done where the Placing Price is HK\$0.70 or above. Assuming that the Placing Price is HK\$0.70 and the Over-allocation is not exercised at all, the total value of the New H Shares will amount to HK\$102,941,176.80. Any such over-allocation, purchase, stock borrowing and/or transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Should stabilising transactions be effected in connection with the distribution of Placing Shares, they will be done and discontinued at any time at the absolute discretion of CPY International. As a result, demand for the H Shares, and its market price, may fall after the discontinuation of the stabilising transactions.

Prospective investors should also note the warnings regarding stabilising actions as set out in the paragraph headed “Stabilising action” under the section headed “Information about this prospectus and the Placing” in this prospectus.

### COMMENCEMENT OF DEALINGS IN H SHARES

Dealings in H Shares on the GEM is expected to commence on 5 November 2003. H Shares will be traded in board lots of 4,000 each.

### SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on GEM as well as the compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on GEM or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

In respect of dealings in the H Shares which may be settled through CCASS, investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.