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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### PRICING

The Offer Price is expected to be fixed by agreement between DBS Asia (for itself and on behalf of the other Underwriters) and the Company on or before the Price Determination Date, which is currently expected to be 16 September 2006 or such other date as may be agreed between the parties, but in any event not later than 21 September 2006. If DBS Asia (for itself and on behalf of the other Underwriters) and the Company (for itself and on behalf of Chaoyang Auxillary) are unable to reach an agreement on the Offer Price on or before 21 September 2006, the Share Offer will not become unconditional and will lapse.

The Offer Price will not be more than HK\$4.50 per Offer Share and is currently expected to be not less than HK\$3.90 per Offer Share. DBS Asia (for itself and on behalf of the other Underwriters) may, with the consent of the Company (for itself and on behalf of Chaoyang Auxillary), reduce the aforesaid indicative Offer Price range below that stated in this prospectus (which is HK\$3.90 per Offer Share to HK\$4.50 per Offer Share). Potential investors should be aware that the Offer Price to be determined on or before the Price Determination Date may be, but is currently not expected to be, lower than the indicative range of the Offer Price stated in this prospectus.

If, based on the level of interest expressed by prospective professional, institutional and other investors during the book-building process, DBS Asia (for itself and on behalf of the other Underwriters), and with the consent of the Company (for itself and on behalf of Chaoyang Auxillary) thinks it appropriate (for instance, if the level of interest is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that stated in this prospectus at any time prior to the morning of the latest day for lodging applications under the Public Offer. In the event where the final Offer Price is lower than the indicative range of the Offer Price stated in this prospectus, the Company will, as soon as practicable following the decision to make such reduction, make an announcement on the GEM website notices of the reduction in the indicative Offer Price range.

The Offer Price, the level of indication of interests in the Placing and the results and basis of allotment of the Public Offer Shares are expected to be published on the GEM website on 22 September 2006.

### PRICE PAYABLE ON SUBSCRIPTION

Based on the maximum Offer Price of HK\$4.50, the price payable upon application will be the Offer Price of HK\$4.50 per Offer Share plus 1% brokerage, SFC transaction levy of 0.005% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$4,545.46 for each board lot of 1,000 H Shares. The Application Forms include a table showing the exact amount payable for all multiples of Offer Shares.

Further details are set forth in the section headed "How to apply for the Public Offer Shares" in this prospectus.

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## CONDITIONS OF THE SHARE OFFER

Acceptance of applications for the Offer Shares under the Share Offer are conditional upon:

1. the GEM Listing Committee granting listing of, and permission to deal in, the H Shares to be issued as mentioned in this prospectus (including any additional new H Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option); and
2. the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by DBS Asia, for itself and on behalf of the other Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise,

in each case, on or before the dates and times specified in the 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 8:00 a.m. on the Listing Date. If these conditions are not fulfilled, all application monies will be returned, without interest, on the terms set out in the section “How to apply for the Public Offer Shares” in this prospectus. In the meantime, such monies will be held in a separate bank account with the receiving banker or other licensed bank(s) in Hong Kong.

If such conditions shall not have been fulfilled (or, where applicable, waived by DBS Asia (for itself and on behalf of the other Underwriters) on or before the day specified above, the Share Offer will lapse and the Stock Exchange shall be notified immediately. In such case, the Company will cause to be published the notice of the lapse of the Share Offer on the GEM website on the next day following such lapse.

## THE SHARE OFFER

The Share Offer comprises the Public Offer and the Placing. A total of 132,000,000 H Shares, comprising 120,000,000 new H Shares and 12,000,000 Sale H Shares (excluding any new H Shares which may fall to be allotted and issued and any additional Sale H Shares which may be sold pursuant to the exercise of the Over-allotment Option), will initially be made available under the Share Offer. 13,200,000 new H Shares, representing approximately 10% of the total number of H Shares initially available under the Share Offer, will initially be offered for subscription under the Public Offer, and the remaining 118,800,000 H Shares, comprising 106,800,000 new H Shares and the whole of the 12,000,000 Sale H Shares and representing in aggregate approximately 90% of the total number of H Shares initially available under the Share Offer, will initially be offered for subscription and/or purchase, as the case may be, under the Placing.

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INVESTORS MAY APPLY FOR H SHARES UNDER THE PUBLIC OFFER OR INDICATE AN INTEREST FOR H SHARES UNDER THE PLACING, BUT MAY NOT DO BOTH. The Public Offer is open to members of the public in Hong Kong. The Placing will involve selective marketing of H Shares to institutional and professional investors. Institutional and professional investors generally include high net worth individuals, brokers, dealers, companies and fund managers, whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Assuming the Over-allotment Option is not exercised, the H Shares will represent approximately 36.00% of the enlarged issued share capital of the Company immediately after completion of the Share Offer. If the Over-allotment Option is exercised in full, the H Shares will represent approximately 39.47% of the enlarged issued share capital of the Company immediately after completion of the Share Offer and the exercise of the Over-allotment Option.

The Public Offer is fully underwritten by the Public Offer Underwriters and the Placing is fully underwritten by the Placing Underwriters, in each case on a several basis, each being subject to the conditions set out in the paragraph headed “Underwriting arrangements and expenses” in the section headed “Underwriting Arrangement for the Share Offer” in this prospectus.

### THE PUBLIC OFFER

The Company is initially offering 13,200,000 new H Shares, representing 10% of the total number of H Shares initially being offered in the Share Offer, for subscription by way of a public offer in Hong Kong. The Public Offer Shares are being offered at the Offer Price. The Public Offer is fully underwritten by the Public Offer Underwriters, subject to the terms and conditions of the Underwriting Agreement.

Allotment of Public Offer Shares will be based upon the level of valid applications received. The basis of allotment may vary depending upon the number of Public Offer Shares validly applied for by each applicant, but will otherwise be made on a strictly pro-rata basis. In addition, the allotment of Public Offer Shares in such circumstances may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares than others who have applied for the same number of Public Offer Shares and that applicants who are not successful in the ballot may or may not receive any Public Offer Shares.

The Public Offer is conditional on the same conditions as set out in the paragraph headed “Conditions of the Share Offer” above. The total number of Public Offer Shares to be allotted and issued pursuant to the Public Offer may change as a result of exercise of the Over-allotment Option and any re-allocation of unsubscribed H Shares originally included in the Placing.

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## STRUCTURE AND CONDITIONS OF THE SHARE OFFER

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### THE PLACING

The Company and Chaoyang Auxillary are initially offering 118,800,000 H Shares (comprising 106,800,000 new H Shares and the whole of 12,000,000 Sale H Shares) for subscription and/or purchase, as the case may be, at the Offer Price by way of placing. Subject to the Over-allotment Option, the Placing Shares represent approximately 90% of the total number of H Shares initially being offered in the Share Offer (assuming the Over-allotment Option is not exercised). The Placing is fully underwritten by the Placing Underwriters, subject to the terms and conditions of the Underwriting Agreement.

All Placing Shares will be available for subscription and/or purchase, as the case may be, by professional and institutional investors. It is expected that the Placing Underwriters or selling agents nominated by them will conditionally place the Placing Shares on behalf of the Company and Chaoyang Auxillary at the Offer Price with professional and institutional investors. Professional and institutional investors generally include high net worth individuals, brokers, dealers, companies and fund managers, whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

### OFFER MECHANISM – BASIS OF ALLOCATION OF THE OFFER SHARES

#### The Public Offer

For allocation purposes only, the total number of Public Offer Shares initially available for subscription and purchase (as the case may be) under the Public Offer (taking into account any adjustment of Offer Shares between the Placing and the Public Offer referred to below), will be divided equally into two pools: pool A and pool B. Pool A will consist of not less than 6,600,000 Public Offer Shares and will be allocated on an equitable basis to successful applicants who have applied for Public Offer Shares with a total subscription amount (excluding SFC transaction levy, Stock Exchange trading fee and brokerage payable thereon) of HK\$5 million or less; pool B will consist of not less than 6,600,000 Public Offer Shares and will be allocated on an equitable basis to successful applicants who have applied for Public Offer Shares with a total subscription amount (excluding SFC transaction levy, Stock Exchange trading fee and brokerage payable thereon) of more than HK\$5 million and up to the total value of pool B. Applicants should be aware that applications within the same pool, and as well as between different pools, are likely to receive different allocation ratios. Where one of the pools is under-subscribed and the other pool is over-subscribed, the surplus Public Offer Shares from the under-subscribed pool will be transferred to the other pool to satisfy excess demand in the over-subscribed pool and be allocated accordingly. Applicants can only apply to receive an allocation of Public Offer Shares in either pool A or pool B but not from both pools. No applications will be accepted from investors applying for more than the total number of Public Offer Shares originally allocated to each pool. Multiple applications or suspected multiple applications within either pool or between pools will be rejected.

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Each applicant under the Public Offer will be required to give an undertaking and confirmation in the application form submitted by it that it and any person(s) for whose benefit it is making the application will not receive any Placing Shares under the Placing, has not indicated and will not indicate an interest for any Placing Shares under the Placing, and its application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue, as the case may be. The Company, the Selling Shareholder, and DBS Asia have full discretion to reject or accept any application, or to accept only part of any application.

Allocation of the Public Offer Shares, including any Offer Shares which may be reallocated from the Placing, under the Public Offer will be based solely on the level of valid applications received under the Public Offer. If there is over-subscription under the Public Offer, the basis of allocation may vary depending on the number of Public Offer Shares validly applied for by each applicant. The allocation of the Public Offer Shares may involve balloting, which would mean that some applicants may be allotted more Public Offer Shares in such circumstances than others who have applied for the same number of the Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

### **The Placing**

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the potential investors are likely to buy further H Shares, or hold or sell their Shares, after the Listing. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and the Shareholders as a whole. Investors who have been allocated any Placing Shares under the Placing will not be allocated any Public Offer Shares under the Public Offer. Similarly, investors who have been allocated any Public Offer Shares under the Public Offer will not be allocated any Placing Shares under the Placing. In addition, the Directors and DBS Asia will, after taking into account the applications under the Public Offer, use their best endeavours to observe the minimum public float and minimum spread requirements under the Listing Rules when making allocations of the Placing Shares to investors who are anticipated to have a sizeable demand for such Shares.

### **Over-subscription**

The allocation of the Offer Shares between the Public Offer and the Placing is subject to adjustment. If the number of H Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of H Shares initially available for subscription or purchase (as the case may be) under the Public Offer, then H Shares will be reallocated to the Public Offer from the Placing, so that the total number of H Shares available under the Public Offer will increase to not less than 39,600,000 H Shares (representing not less than 30% of the total number of the Offer Shares available under the Share Offer, assuming the Over-allotment Option is not exercised). If the number of H Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of H Shares initially available for subscription or purchase (as the case may be) under the Public Offer, then the number of H Shares to be reallocated to the Public Offer from the Placing will be increased so that the total number of H Shares available under the Public Offer will increase to not less than 52,800,000 H Shares (representing not less than 40% of

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the total number of Offer Shares available under the Share Offer, assuming the Over-allotment Option is not exercised at all). If the number of H Shares validly applied for under the Public Offer represents 100 times or more the number of H Shares initially available for subscription or purchase (as the case may be) under the Public Offer, then the number of H Shares to be reallocated to the Public Offer from the Placing will be increased so that the total number of H Shares available under the Public Offer will increase to not less than 66,000,000 H Shares (representing not less than 50% of the total number of the Offer Shares available under the Share Offer, assuming the Over-allotment Option is not exercised). In each such case, the additional H Shares reallocated to the Public Offer will be allocated equally between pool A and pool B and the number of H Shares allocated to the Placing will be correspondingly reduced. The Placing Shares to be reallocated from the Placing to the Public Offer may comprise H Shares offered by the Company and/or Sale H Shares offered by the Selling Shareholder.

### **Under-subscription**

If the Public Offer is not fully taken up, DBS Asia, on behalf of the Public Offer Underwriters, has the authority to reallocate all or any untaken Public Offer Shares originally included in the Public Offer to the Placing, in such number as it deems appropriate provided that there is sufficient demand under the Placing to take up such reallocated Shares. The Public Offer Shares to be reallocated from the Public Offer to the Placing comprise H Shares to be offered by the Company. If the Placing is not fully taken up, DBS Asia, on behalf of the Placing Underwriters, has the authority to reallocate all or any untaken Placing Shares originally included in the Placing to the Public Offer, in such number as it deems appropriate provided that there is sufficient demand under the Public Offer to take up such reallocated Shares. The Placing Shares to be reallocated from the Placing to the Public Offer may comprise new H Shares to be offered by the Company and/or the Sale H Shares to be offered by the Selling Shareholder. Details of any reallocation of Shares between the Public Offer and the Placing will be disclosed in the results announcement, which is expected to be made on or about Friday, 22 September 2006.

### **SALE H SHARES**

In accordance with the relevant PRC regulations, the Selling Shareholder is offering 12,000,000 Sale H Shares, representing all State-owned Shares in the Company to be converted into H Shares, for sale as part of the Placing. Pursuant to an approval issued by SASAC dated 9 July 2005, an equal number of the State-owned Shares was allocated from Chaoyang Auxillary to the NSSF Council as Sale H Shares, which in turn authorised the Company to sell on its behalf of the Sale H Shares in the Share Offer. The NSSF Council granted such authorisation on 22 August 2005. Accordingly, as a term of the Underwriting Agreement, the net proceeds of the Sale H Shares will be remitted to the designated back account of the NSSF Council in accordance with the relevant PRC regulations.

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### OVER-ALLOTMENT AND STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public offer prices of the securities. In Hong Kong and certain other jurisdictions, the price at which stabilisation is effected is not permitted to exceed the Offer Price.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilisation) Rules includes (i) over-allocation for the purpose of preventing or minimizing any reduction in the market price, (ii) selling or agreeing to sell shares so as to establish a short position in them for the purpose of preventing or minimizing any reduction in the market price, (iii) subscribing, or agreeing to subscribe, for shares pursuant to the over-allotment option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase shares for the sole purpose of preventing or minimizing any reduction in the market price, (v) selling shares to liquidate a long position held as a result of those purchases and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

In connection with the Share Offer, the Global Coordinator, as stabilising manager, or any person acting for it, may over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the last day for the lodging of applications under the Public Offer. Any market purchases of H Shares will be effected in compliance with all applicable laws and regulatory requirements. However there is no obligation on the stabilising manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of the stabilising manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Public Offer. The number of H Shares that may be over-allocated will not exceed the number of H Shares that may be issued under the Over-allotment Option, namely 19,800,000 H Shares, which is 15% of the number of H Shares initially available under the Share Offer.

As a result of effecting transactions to stabilise or maintain the market price of the H Shares, the Global Coordinator, or any person acting for it, may maintain a long position in the H Shares. The size of the long position, and the period for which the stabilising manager, or any person acting for it, will maintain the long position is at the discretion of the stabilising manager and is uncertain. In the event that the stabilising manager liquidates this long position by making sales in the open market, there may be a decline in the market price of the H Shares.

Stabilising action by the Global Coordinator, or any person acting for it, is not permitted to support the price of the H Shares for longer than the stabilising period, which begins on the day on which trading of the H Shares commences on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Public Offer. The stabilising period is expected to end on 13 October 2006. As a result, demand for the H Shares, and their market price, may fall after the end of the stabilising period.



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The Company will ensure or procure that a public announcement on the GEM website in compliance with the Securities and Futures (Price Stabilisation) Rules will be made within seven days of the expiration of the stabilising period.

Any stabilising action taken by the stabilising manager, or any person acting for it, may not necessarily result in the market price of the H Shares staying at or above the Offer Price either during or after the stabilising period. Bids for or market purchases of the H Shares by the Global Coordinator, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for the H Shares by subscribers or purchasers.

### **COMMENCEMENT OF DEALINGS IN THE H SHARES**

Dealings in the H Shares on GEM are expected to commence on 25 September 2006.

The H Shares will be traded in board lots of 1,000 each.

### **H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the listing of, and permission to deal in, the H Shares to be issued and sold pursuant to the Share Offer and any H Shares which may fall to be allotted and sold pursuant to any exercise of the Over-allotment Option on GEM by the GEM Listing Committee and the compliance by the Company 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 such other date as determined by HKSCC. 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.

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

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