

STRUCTURE OF THE PLACING

THE PLACING

The Placing will involve selective marketing of Shares to institutional and other investors anticipated to have a sizeable demand for such Shares pursuant to an international Placing. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The Placing Shares are fully underwritten by the Underwriters on a several basis, subject to the conditions set out in the paragraph headed “Underwriting arrangements and expenses” under the section headed “Underwriting”.

CONDITIONS OF THE PLACING

The Placing is conditional on:

- (1) the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein; and
- (2) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, following the waiver of any condition(s) by Guotai Junan for and on behalf of the Underwriters) and the Underwriting Agreement not being terminated in accordance with its terms or otherwise.

If such conditions have not been fulfilled or waived, as appropriate, on or before 8th June, 2001, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be caused to be published by the Company in the South China Morning Post, Hong Kong Economic Times and the GEM website (www.hkgem.com) on the next day following such lapse.

The Company is initially offering 67,500,000 Shares, initially available under the Placing, for subscription under the Placing. The Placing Shares will represent 20 per cent. of the Company's enlarged issued share capital immediately after completion of the Placing (assuming that the Over-allotment Option is not exercised).

67,500,000 Placing Shares will be conditionally placed by the Underwriters or through selling agents appointed by them to certain professional, institutional and other investors. Such professional, institutional and other investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The Placing Shares will be offered in Hong Kong and/or Europe.

Allocation of Placing Shares to professional, institutional and other investors pursuant to the Placing is based on a number of factors including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further Shares, or hold or sell its Shares, after the listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole.

STRUCTURE OF THE PLACING

OVER-ALLOTMENT OPTION

In connection with the Placing, the Company has granted to the Underwriters the Over-allotment Option, exercisable by Guotai Junan on behalf of the Underwriters at any time on or before 8th June, 2001. Pursuant to the Over-allotment Option, the Company may be required to issue and allot at the Issue Price up to an aggregate of 10,125,000 additional Shares, representing 15 per cent. of the Shares initially available under the Placing, to cover over-allocations in the Placing, if any. In order to facilitate settlement of over-allocations in connection with the Placing pending exercise of the Over-allotment Option, a stock borrowing arrangement has also been entered into between Guotai Junan and Mr. Lin.

Pursuant to this arrangement, Mr. Lin has agreed that, if so requested by Guotai Junan, Mr. Lin will lend to Guotai Junan up to 10,125,000 Shares on the following terms:

- (i) such stock borrowing arrangement with Mr. Lin will only be effected by Guotai Junan for settlement of over-allocations in connection with the Placing;
- (ii) the maximum number of Shares to be borrowed from Mr. Lin will be limited to 10,125,000 Shares, which is the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;
- (iii) the same number of Shares borrowed will be returned to Mr. Lin or his nominee(s) (as the case may be) not later than three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised or (b) the day on which the Over-allotment Option is exercised in full;
- (iv) the returned Shares will be deposited with an escrow agent acceptable to the Stock Exchange as soon as practicable;
- (v) the stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements; and
- (vi) no payments will be made to Mr. Lin by Guotai Junan in relation to such stock borrowing arrangement.

An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of Shares by Mr. Lin for the period of two years from the date of listing of the Shares on GEM, in order to allow Mr. Lin to enter into this stock borrowing arrangement. Details of such waiver are set out in the section headed “Waivers from compliance with the GEM Listing Rules and Companies Ordinance”. Guotai Junan may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or by a combination of purchase in the secondary market and exercise of the Over-allotment Option either in part or in full. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

STRUCTURE OF THE PLACING

If the Over-allotment Option is exercised in full, the total Placing Shares issued will represent approximately 22.3 per cent. of the enlarged issued share capital of the Company immediately after completion of the Placing and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made on the GEM Website, and in the South China Morning Post in English and Hong Kong Economic Times in Chinese.

STABILISATION

In connection with the Placing, Guotai Junan may, on behalf of the Underwriters, over-allocate and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail. The number of Shares that may be over-allocated will be no greater than the number of Shares that may be issued under the Over-allotment Option. Such stabilisation 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. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of Shares, they will be done so at the absolute discretion of Guotai Junan.

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 prices of the securities. The stabilisation price to cover over-allocations will not exceed the Issue Price.

Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. In Hong Kong, such stabilisation activities are restricted to cases where underwriters genuinely purchase shares on the secondary market solely for the purpose of covering over-allocations in an offering. The relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.