
UNDERWRITING

UNDERWRITERS

Vickers Ballas Capital Limited

Indosuez W.I. Carr Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares for subscription by way of Placing on and subject to the terms and conditions of this prospectus. Subject to the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus being granted by the GEM Listing Committee of the Stock Exchange (subject only to allotment) and to certain other conditions set out in the Underwriting Agreement being satisfied not later than 17th August, 2000, the Underwriters have severally agreed to subscribe, or procure subscribers to subscribe, for the Placing Shares on and subject to the terms and conditions of the Placing which have not been subscribed for or placed pursuant to the Placing.

Grounds for termination

The Underwriters are entitled to terminate their obligations under the Underwriting Agreement upon occurrence of the following events prior to 9:00 a.m. on the day of the despatch of the share certificates:

- (a) any breach, considered by Vickers to be material in the overall context of the Placing, of any of the warranties or any other provision of the Underwriting Agreement;
- (b) any matter which, had it arisen immediately before the date of this prospectus and not having been disclosed in this prospectus, would have constituted an omission considered by Vickers to be material in the overall context of the Placing;
- (c) any statement considered to be material by Vickers contained in the prospectus is discovered to be or becomes untrue, incorrect or misleading in any respect considered in the reasonable opinion of Vickers to be material;
- (d) any event, act or omission which gives or is likely to give rise to any material liability of the Company or the Initial Management Shareholders pursuant to the indemnities contained in the Underwriting Agreement;
- (e) there is any adverse change in the business or in the financial or trading position of any member of the Group which in the opinion of Vickers is material in the context of the Placing; or
- (f) any event or series of events, matters or circumstances concerning or relating to, or any change or prospective change (whether or not permanent) in:
 - (i) any local, national or financial, political, economic, military, industrial, currency, conflict-related, legal, exchange control, fiscal, regulatory, stock or other financial

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market conditions, circumstances or sentiments or matters, whether or not of the same kind with any of the foregoing (including without limitation any moratorium on or suspension of commercial banking activities or trading in securities on GEM) in the BVI, the Cayman Islands, Hong Kong, Macau, the PRC or the US;

- (ii) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, Macau, the PRC, the Cayman Islands, the BVI or any other relevant jurisdiction;
- (iii) any event of force majeure affecting the BVI, the Cayman Islands, Hong Kong, Macau, the PRC or any other relevant jurisdiction including, without limiting the generally thereof, any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism, strike or lock-out;
- (iv) the conditions or sentiments of the Hong Kong or the US equity securities or other financial markets;
- (v) any change in the system under which the value of the Hong Kong currency is linked to that of the currency of the US;
- (vi) the imposition of any moratorium, suspension or material restriction or trading in securities generally on the Stock Exchange or in the New York Stock Exchange due to exceptional financial circumstances or otherwise; or
- (vii) a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the PRC or any other jurisdiction relevant to the Group or affecting an investment in the Shares or the transfer or dividend payment in respect thereof;

which, in the reasonable opinion of Vickers, is or will be, or is likely to be, materially adverse to the business, financial or other condition or prospects of the Group taken as a whole or makes it inappropriate, inadvisable or inexpedient to proceed with the Placing.

Undertakings

Under the GEM Listing Rules, no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued or form the subject of agreement to issue within the first 6 months of the date on which the Shares first commence dealing in GEM, save in respect of any capitalisation issue or any consolidation, sub-division or capital reduction of shares.

Further to the undertakings set out in the section headed “Substantial and Initial Management Shareholders”, each of the Initial Management Shareholders and Vandome has undertaken to the Company and Vickers (for itself and on behalf of the Underwriters) that:

- (i) the Initial Management Shareholders and Vandome will not and will procure that none of their respective associates or companies controlled by it/him will dispose of (or enter into any agreement to dispose of) any of the Shares or any interests therein, or any shares, directly or indirectly held by it/him or its/his respective associates, in any company which

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is the beneficial owner of any of such Shares or interests, in each case, as at the Listing Date (including but not limited to the relevant securities (as defined in Rule 13.15 of the GEM Listing Rules) held by it/him) to be effected after the Listing Date but excluding Shares allotted by way of scrip dividend (“Relevant Shares”) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its direct or indirect interest in the Relevant Shares for the period up to and including the day falling six months from the Listing Date;

- (ii) the Initial Management Shareholders and Vandome will enter into an escrow agreement with an escrow agent (such escrow agent as shall be acceptable to the Stock Exchange and Vickers) on terms acceptable to the Stock Exchange and Vickers and place in escrow, with such escrow agent, its relevant securities (as defined in the GEM Listing Rules) for a period of six months commencing from the Listing Date;
- (iii) in the event that any of the Initial Management Shareholders and Vandome pledges or charges any direct or indirect interest in the Relevant Shares under Rule 13.17(2) of the GEM Listing Rules it must inform the Company immediately thereafter, disclosing the details as required by the GEM Listing Rules and any of the Initial Management Shareholders and Vandome, should inform the Company immediately in the event that each of them becomes aware that the pledgee or chargee has disposed of or intends to dispose of any such interest in the Relevant Shares and of the number of the Relevant Shares affected.

SHI further undertakes with the Company and Vickers (for itself and on behalf of the Underwriters) that for the second six months from the Listing Date:—

- (i) it shall not dispose of any Relevant Shares if such disposal would result in SHI cease to have control of at least 35% of the voting powers at general meeting of the Company;
- (ii) it will place in escrow, with an escrow agent acceptable to the Stock Exchange, such number of its Relevant Shares representing not less than 35% of the issued share capital of the Company.

The Company has undertaken to Vickers (for itself and on behalf of the Underwriters) and each of the Initial Management Shareholders undertakes and covenants with Vickers (for itself and on behalf of the Underwriters) to procure that subject to prior written consent from Vickers (for itself and on behalf of the Underwriters) the Company will not, save as mentioned in this prospectus and save pursuant to the Share Option Scheme or the exercise of any option granted under the Over-allotment Option, allot or issue any shares or other securities of the Company, or agree conditionally or unconditionally to allot or issue or grant or agree to grant options over any shares or other securities of the Company during the period from the date of the Underwriting Agreement up to and the day falling twelve months from the Listing Date so as to result in SHI ceasing to be the ultimate controlling shareholder (within the meaning of the GEM Listing Rules) of the Company.

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Each of the shareholders of SHI has undertaken to the Company and Vickers (for and on behalf of the Underwriters) (i) not to dispose of their respective direct or indirect interests in SHI during the second six month period after the Listing Date which would result in their aggregate interest in the issued share capital of the Company becoming less than 35% and (ii) to place in escrow, with an escrow agent acceptable to the Stock Exchange, their respective shares in SHI for the second six month period after the Listing Date.

Each of the Company and the Initial Management Shareholders undertakes and covenants with Vickers (for and on behalf of the Underwriters) that after expiry of twelve months from the Listing Date, each of them will take all reasonable steps to ensure that any disposal of the relevant securities (as defined in Rule 17.15 of the GEM Listing Rules) will not create a false or disorderly market in the Shares.

Commission and expenses

The Underwriters will receive an underwriting commission of 2.5% on the aggregate Issue Price of all the Placing Shares now being offered, out of which they will pay any sub-underwriting commissions. Vickers will, in addition, receive a documentation and advisory fee. Vandome, having been nominated by DTCF, will be allotted 0.75% of the issued share capital of the Company immediately after the completion of the Placing (assuming the Over-allotment Option is not exercised) as partial settlement of the management fee and advisory fee for its services as the Co-Sponsor of the Placing upon completion of the Placing. The underwriting commission, management fee, advisory fee, documentation fee, transaction levy, brokerage, legal, promotional and other expenses relating to the Placing are estimated to amount to approximately HK\$16.3 million in total (based on an Issue Price of HK\$1.33 per Share) and are payable by the Company.

Underwriters' interest in the Company

Save for its interests and obligations under the Underwriting Agreement and save as disclosed in this prospectus, none of the Underwriters or any of its associates is interested beneficially or non-beneficially in any shares in any member of the Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.