
WAIVERS IN RESPECT OF THE GEM LISTING RULES

GEM LISTING RULES WAIVERS

For the purpose of the listing of the Shares on the GEM, the Company has sought a number of waivers from the Stock Exchange in relation to certain requirements under the GEM Listing Rules. Details of such waivers are described below.

Waiver on Share disposal restriction

The GEM Listing Rules require every initial management shareholder of a listing applicant to undertake to the listing applicant and the Stock Exchange not, for a period of 2 years from the listing date, save as provided in Rule 13.17 of the GEM Listing Rules, to dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into any agreement to dispose of) any direct or indirect interest in relevant securities.

For the purpose of the listing of the Shares on GEM, the Company has sought certain waivers from the Stock Exchange in relation to certain requirements under the GEM Listing Rules.

Pursuant to Rule 13.16(2) of the GEM Listing Rules, the Company shall procure, inter alia, that each of the Initial Management Shareholders undertakes to the Company and the Stock Exchange that, for a period of 2 years from the Listing Date, he/she/it will not, save as provided in Rule 13.17, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her/its direct or indirect interest in relevant securities. The Company has applied to, and has obtained from, the Stock Exchange for a waiver from strict compliance with Rule 13.16(2) of the GEM Listing Rules to reduce the 2-year lock-up period imposed on each of the Initial Management Shareholders to a 6-month lock-up period subject to the conditions that neither Ms. Peggy Chan nor Passion is allowed to dispose of any relevant securities in the second 6-month period after listing if such disposal would result in she and it together ceasing to have control over 35 per cent. of the voting rights at general meetings of the Company.

An Over-allotment Option has been granted by the Company to the Underwriters exercisable by HSBC Investment Bank Asia on their behalf. Details of the Over-allotment Option are set out under "Structure of the Share Offer — Over-allotment Option". On 19th June, 2000, Passion and HSBC Investment Bank Asia entered into the Stock Borrowing Agreement, pursuant to which Passion shall upon request by HSBC Investment Bank Asia lend up to 22,500,000 Shares, representing 15 per cent. of the Offer Shares, to HSBC Investment Bank Asia for the purpose of settling over-allocations under the Placing and/or over-subscriptions in the Public Offer, which Shares shall be returned to Passion and deposited with the escrow agent not later than three business days following the last day of the exercise of the Over-allotment Option or the date on which the Over-allotment Option is exercised in full, whichever is the earlier. Further particulars of such stock borrowing arrangement are set out under "Structure of the Share Offer — Over-allotment Option".

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The Company has applied to the Stock Exchange for a waiver from strict compliance with Rule 13.16(2) of the GEM Listing Rules to allow Ms. Peggy Chan and Passion to dispose of their interest in the Company during the lock-up period as may be prescribed by the GEM Listing Rules at the time of listing of the Shares where such disposal is made pursuant to the Stock Borrowing Agreement and the Stock Exchange has granted such waiver on condition that:

- (i) such stock borrowing pursuant to the Stock Borrowing Agreement with Passion will only be effected by HSBC Investment Bank Asia for settlement of over-allocations in connection with the Placing and/or over-subscriptions in connection with the Public Offer;
- (ii) the maximum number of Shares borrowed from Passion will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option; and
- (iii) the same number of Shares will be returned to Passion no later than three business days following the earlier of (i) the last day on which the Over-allotment Option may be exercised and (ii) the day on which the Over-allotment Option is exercised in full.

Waiver on Share Option Scheme

Under Rule 23.03(2) of the GEM Listing Rules, the total number of securities subject to a share option scheme and any other schemes must not, in aggregate, exceed 10 per cent. of the relevant class of securities of the listed issuer (or the subsidiary) in issue from time to time (excluding (i) securities issued upon the exercise of options granted pursuant to the scheme and any other schemes; and (ii) any pro rata entitlements to further securities issued in respect of those securities mentioned in (i)) during a specified period of 10 consecutive years. The Company has applied to, and obtained from, the Stock Exchange for a waiver from strict compliance with Rule 23.03(2) of the GEM Listing Rules to increase the limit relating to the granting of options imposed by Rule 23.03(2) to 30 per cent. subject to the conditions stated under "Share Option Scheme" in Appendix VI to this prospectus.

Waiver on stating property assets at revalued amounts

Under Rule 18.35 of the GEM Listing Rules, where a listed issuer has caused any property assets to be valued (in accordance with Rule 8.01 of the GEM Listing Rules), and included such a valuation in the prospectus relating to the initial public offer of shares in the listed issuer, the property assets shall be stated in the issuer's financial statements at such valuation (or subsequent valuation) less the aggregate amount provided or written off for depreciation and diminution in value unless:

- (i) such property assets fall to be treated as investment properties; and
- (ii) the ordinary course of business of the listed issuer and the group includes property development and the properties which have been valued are in the course of development or are held for future development and have been classified as such in the accounts of the listed issuer or the group.

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In addition, listed issuers are required to state, by way of a note in the financial statements, the additional depreciation charged against the profit and loss account as a consequence of complying with Rule 18.35 of the GEM Listing Rules.

In order to comply with Rule 8.01 of the GEM Listing Rules, the property assets of the Group were revalued as at 30th April, 2000, by the Company's property valuer, Chesterton Petty Limited, for the purpose of inclusion in this prospectus. According to the valuation report as at 30th April, 2000 from Chesterton Petty Limited, the valuation of the property assets of the Group was stated at approximately HK\$14 million. On that basis, if the Group were to reflect such surplus in its financial statements, the Group would carry a revaluation surplus of approximately HK\$6.9 million, which represents approximately 2.37 per cent. of the adjusted net tangible assets value of the Group (based on an Offer Price of HK\$1.35) and approximately 2.31 per cent. of the adjusted net tangible assets value of the Group (based on an Offer Price of HK\$1.40) as set out under "Financial information — Adjusted net tangible assets".

The holding of land and buildings is not a core business activity of the Group, and the revaluation surplus arises from the revaluation of the two residential properties of the Group which are used by it as staff quarters. As neither the Group's property assets are classified by the Group as investment properties nor is the Group engaged in property development, the Directors are of the view that the cost and effort associated with complying strictly with Rule 18.35 of the GEM Listing Rules, which primarily relate to costs of retaining the services of a professional property valuer to carry out property revaluations regularly, will outweigh the benefits that can be derived and will therefore not be in the best interests of the Company's shareholders.

Given that the holding of land and buildings is not a core business activity of the Group, the Directors believe that the Group's financial condition would be better presented to investors by excluding properties valuation fluctuations, which occur independently of the results generated by the Group's principal lines of business. The Group intends to hold the properties for long term purposes and consequently any valuation surpluses are not expected to be realised in the foreseeable future.

The Company has applied to, and obtained from, the Stock Exchange a waiver from strict compliance with Rule 18.35 of the GEM Listing Rules so that the Company can, following the Listing, continue to state the value of land and buildings in its accounts at cost less provision for accumulated depreciation and impairment in value of such land and buildings. As a result, the revaluation surplus will not be reflected in the Group's financial statements.