
STRUCTURE OF THE SHARE OFFER

PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK\$1.40 and is expected to be not less than HK\$1.35. Applicants under the Public Offer should pay, on application, the maximum price of HK\$1.40 per Share plus one per cent. brokerage and 0.01 per cent. Stock Exchange transaction levy amounting to a total of HK\$2,828.28 per board lot of 2,000 Shares.

If the Offer Price, as finally determined in the manner described below, is lower than the maximum price, appropriate refund payments will be made. Further details are set out under "How to apply for Public Offer Shares".

DETERMINING THE OFFER PRICE

The Offer Price is expected to be fixed on or around 23rd June, 2000 (and in any event on or before 27th June, 2000) by agreement between HSBC Investment Bank Asia (on behalf of the Underwriters) and the Company with reference to market demand for the Shares. **Prospective investors should be aware that the Offer Price to be determined on the IPO Pricing Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

If, based on the level of interest expressed by prospective investors, HSBC Investment Bank Asia (on behalf of the Underwriters and with the consent of the Company) thinks it appropriate, the indicative Offer Price range may be reduced below than stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the latest day for lodging applications under the Public Offer, cause to be published on the GEM Web-site and in the South China Morning Post in English and the Hong Kong Economic Times in Chinese notice of the reduction of the Offer Price range. **Applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range may not be made until the morning of Friday, 23rd June, 2000, the last day for lodging applications under the Public Offer.** Such notice will also include confirmation or revision, as appropriate, of the working capital position of the Company, the offer statistics as currently set out under "Summary of this prospectus" and any other financial information which may change as a result of any such reduction. **Applicants under the Public Offer should note that in no circumstances can applications be withdrawn once submitted, even if the Offer Price range is so reduced.**

If HSBC Investment Bank Asia (on behalf of the Underwriters) and the Company are unable to reach agreement on the Offer Price on or before 27th June, 2000, the Share Offer will not become unconditional and will lapse.

An announcement of the Offer Price, together with the results of applications under the Public Offer, level of indication of interests in the Placing and the basis of allocation of the Public Offer Shares, is expected to be published on Wednesday, 28th June, 2000.

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CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for the Offer Shares will be conditional on:

- (a) the GEM Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Share Offer (including Shares to be issued upon the exercise of the Over-allotment Option) and the Capitalisation Issue, and Shares that may be issued pursuant to the conversion of the Additional Convertible Note and the exercise of options that may be granted under the Share Option Scheme; and
- (b) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any conditions by HSBC Investment Bank Asia on behalf of the Underwriters) and not being terminated in accordance with its terms 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 20th July, 2000, being the date which is 30 days after the date of this prospectus.

If such conditions have not been fulfilled or waived prior to the times and dates specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be caused to be published by the Company on the GEM Web-site and in the South China Morning Post in English and the Hong Kong Economic Times in Chinese on the next day following such lapse.

In the above eventuality, all application monies will be returned to the applicants, without interest and on the terms set out under "Refund of your money" in the application forms. In the meantime, application monies will be held in a separate bank account or separate bank accounts with the receiving banker or other bank(s) licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will be issued on 28th June, 2000 and will become valid certificates of title at 6:00 p.m. on 29th June, 2000, provided that (i) the Share Offer has become unconditional and (ii) the right of termination as described under "Underwriting — Grounds for termination" has not been exercised prior thereto.

THE SHARE OFFER

The Share Offer comprises the Public Offer and the Placing. A total of 150,000,000 Shares will initially be made available under the Share Offer. 22,500,000 Shares, representing 15 per cent. of the total number of Shares initially available under the Share Offer, will initially be offered for subscription under the Public Offer, and the remaining 127,500,000 Shares will initially be offered for subscription under the Placing.

Investors may apply for Shares under the Public Offer or indicate an interest for Shares under the Placing, but may not do both (except for full-time employees of the Group who, in addition to applying for Shares on a preferential basis under the Placing, may also apply for Public Offer Shares). The Public Offer is open to members of the public in Hong Kong as well

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as to institutional and professional investors. The Placing will involve selective marketing of Shares to institutional and professional investors and other investors expected to have a sizeable demand for the Shares as well as an offer of Shares on a preferential basis as to allocation only to full-time employees of the Group (excluding the Directors). Shares allocated on a preferential basis to full-time employees of the Group under the Placing will not be subject to any lock-up arrangement. 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. Other investors not having a sizeable demand for the Shares are unlikely to be allocated Placing Shares.

Assuming the Over-allotment Option is not exercised, the Offer Shares will represent 15 per cent. of the Company's enlarged issued share capital immediately after completion of the Share Offer.

If the Over-allotment Option is exercised in full, the Shares comprised in the Share Offer will represent approximately 16.87 per cent. 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 under "Underwriting — Underwriting arrangements and expenses". If, for any reason, the Offer Price is not agreed on or before 27th June, 2000 between the Company and HSBC Investment Bank Asia, on behalf of the Underwriters, the Share Offer will not proceed.

The Offer Shares are not available to the chief executive of the Company, the Directors, existing beneficial owners of Shares, or the associates (as defined in the GEM Listing Rules) of any of them.

THE PUBLIC OFFER

The Public Offer is a fully underwritten public offer (subject to agreement as to pricing and the other conditions described under "Conditions of the Share Offer") for subscription in Hong Kong of, initially, 22,500,000 Shares at the Offer Price (representing 15 per cent. of the total number of Shares initially available under the Share Offer). Subject to the reallocation of Offer Shares between the Placing and the Public Offer, the Public Offer Shares will represent 2.25 per cent. of the Company's enlarged issued share capital immediately after completion of the Share Offer, assuming that the Over-allotment Option is not exercised.

The Public Offer is sponsored by HSBC Investment Bank Asia and underwritten by the Public Offer Underwriters. Applicants under the Public Offer are required to pay, on application, the maximum price of HK\$1.40 per Share in addition to one per cent. brokerage and 0.01 per cent. Stock Exchange transaction levy payable. If the Offer Price, as finally determined in the manner described above, is less than the maximum price of HK\$1.40, appropriate refund (including the brokerage and the Stock Exchange transaction levy attributable to the surplus application monies) will be made, without interest. Further details are set out under "How to apply for Public Offer Shares".

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Allocation of Public Offer Shares will be based solely on the level of valid applications received. When there is over-subscription in the Public Offer, the basis of allocation may vary depending on 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 allocation 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 not receive any Public Offer Shares.

THE PLACING

The Company is initially offering 127,500,000 Shares for subscription by way of Placing. Subject to the reallocation of Offer Shares between the Placing and the Public Offer, the Placing Shares will represent 12.75 per cent. of the Company's enlarged issued share capital immediately after completion of the Share Offer, assuming that the Over-allotment Option is not exercised.

2,154,000 Placing Shares (representing approximately 1.44 per cent. of the Offer Shares and approximately 0.22 per cent. of the enlarged issued share capital of the Company immediately upon completion of the Share Offer, assuming the Over-allotment Option is not exercised) will be offered at the Offer Price by the Company on a preferential basis as to allocation only to full-time employees of the Group (excluding the Directors).

The remaining Placing Shares will be conditionally placed on behalf of the Company pursuant to an international placement by the Placing Underwriters or through selling agents appointed by them at the Offer Price which will be determined in Hong Kong dollars as described above in this section under "Determining the Offer Price". Shares will be placed with certain professional and institutional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong, Europe and other jurisdictions outside the United States (other than the PRC) in offshore transactions in reliance on Regulation S and in the United States with qualified institutional buyers in reliance on Rule 144A.

OFFER MECHANISM — REALLOCATION OF THE OFFER SHARES BETWEEN THE PUBLIC OFFER AND THE PLACING

The allocation of the Offer Shares between the Placing and the Public Offer is subject to adjustment. If the number of Shares validly applied for in the Public Offer represents 15 times or more of the number of Shares initially available for subscription under the Public Offer, then 7,500,000 Shares will be reallocated to the Public Offer from the Placing, so that an aggregate of 30,000,000 Offer Shares will be available under the Public Offer, representing 20 per cent. of the Offer Shares initially available under the Share Offer. The number of Shares available under the Placing will be correspondingly reduced as a result of such reallocation.

In addition, if the Public Offer is not fully subscribed, HSBC Investment Bank Asia may, in its absolute discretion, reallocate all or any unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such proportion and in such manner as HSBC Investment Bank Asia considers appropriate.

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OVER-ALLOTMENT OPTION

In connection with the Share Offer, the Company has granted to the Underwriters the Over-allotment Option which is exercisable by HSBC Investment Bank Asia on behalf of the Underwriters at any time on or before 20th July, 2000. Pursuant to the Over-allotment Option, the Company may be required to issue and allot at the Offer Price up to an aggregate of 22,500,000 additional Shares, representing 15 per cent. of the Shares initially available under the Share Offer, solely to cover over-allocations in the Placing and/or over-subscriptions in the Public Offer, if any. The additional Shares issued pursuant to the exercise of the Over-allotment Option will be allocated to the Placing and/or the Public Offer at the discretion of HSBC Investment Bank Asia, on behalf of the Underwriters. In order to facilitate settlement of over-allocations in connection with the Placing and/or over-subscriptions in connection with the Public Offer, the Stock Borrowing Agreement has also been entered into between HSBC Investment Bank Asia and Passion. Pursuant to this arrangement, Passion has agreed that, if so requested by HSBC Investment Bank Asia, Passion will lend to HSBC Investment Bank Asia up to 22,500,000 Shares on the following terms:

- (i) the borrowed Shares will only be used to settle over-allocations under the Placing and/or over-subscriptions in the Public Offer, and
- (ii) the same number of Shares must be returned to Passion, no later than three business days following the earlier of (a) the date on which the Over-allotment Option is exercised in full and (b) the last day for the exercise of the Over-allotment Option.

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 Ms. Peggy Chan and Passion following six months from the date of listing of the Shares on GEM, in order to allow Passion to enter into this stock borrowing arrangement. Details of such waiver are set out under "Waivers in respect of the GEM Listing Rules". HSBC Investment Bank Asia may also cover such over-allocations by, among other means, purchasing Shares in the secondary market, exercise of the Over-allotment Option, or by a combination of purchases in the secondary market and exercise of the Over-allotment Option. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 16.87 per cent. of the enlarged issued share capital of the Company immediately after completion of the Share Offer 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 Web-site, and in the South China Morning Post in English and the Hong Kong Economic Times in Chinese.

STABILISATION

In connection with the Placing, HSBC Investment Bank Asia, on behalf of the Placing Underwriters, may 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 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 stabilisation, if commenced, may be discontinued at any time.

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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 issue price of the securities. The stabilisation price will not be higher than the Offer Price.

Should stabilising transactions be effected in connection with the distribution of the Shares, they will be done at the direction, and in the absolute discretion, of HSBC Investment Bank Asia. In Hong Kong, such stabilisation activities are restricted to cases where underwriters genuinely purchase shares in the secondary market effected solely for the purpose of covering over-allocations in the offering. The relevant provisions of the Securities Ordinance (Cap 333 of the Laws of Hong Kong) prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.