
UNDERWRITING

UNDERWRITERS

Names of Placing Underwriters

Kingsway Financial Services Group Limited
SinoPac Securities (Asia) Limited

Names of Public Offer Underwriters

Kingsway Financial Services Group Limited
SinoPac Securities (Asia) Limited
Barits Securities (Hong Kong) Limited
BCOM Securities Company Limited
Core Pacific-Yamaichi International (H.K.) Limited
CSC Securities (HK) Limited
First Shanghai Securities Limited
GC Capital (Asia) Limited
KCG Securities Asia Limited
KGI Capital Asia Limited
Tai Fook Securities Company Limited
Taiwan Securities (Hong Kong) Company Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreements

Pursuant to the Public Offer Underwriting Agreement, the Company is offering the Public Offer Shares for subscription, subject to the terms and conditions of this prospectus and the application forms relating thereto and pursuant to the Placing Underwriting Agreement, the Company is offering the Placing Shares for subscription subject to the terms and conditions of the Placing, in each case at the Offer Price.

Subject to, among other matters, the Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein on or before 27th June, 2005 (or such later date as Kingsway Financial (for itself and on behalf of the Underwriters) may agree in writing but in any event not later than 19th July, 2005), (i) the Placing Underwriters have severally agreed to subscribe for or procure subscribers for the Placing Shares, subject to the terms and conditions of the Placing Underwriting Agreement and (ii) the Public Offer Underwriters have severally agreed to subscribe for or procure subscribers for the Public Offer Shares now being offered for subscription under the Public Offer on the terms and conditions of this prospectus, the application forms relating thereto and the Public Offer Underwriting Agreement, and which are not taken up under the Public Offer.

UNDERWRITING

Grounds for termination

Kingsway Financial (for itself and on behalf of the Underwriters) shall have the absolute right by notice in writing to Company to terminate the Underwriting Agreements with immediate effect at any time prior to 8:00 am. (Hong Kong time) on the Listing Date (expected to be on 29th June, 2005) if:

- (a) there shall develop, occur or come into effect:
 - (i) any new law or regulation or any change, whether or not forming part of series of changes, in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority; or
 - (ii) any change in (including any event or series of events concerning or relating to or otherwise having an effect on) Hong Kong, the PRC, the BVI, the Cayman Islands, Japan, Singapore, Asia, national, regional, international, financial, political, military, industrial, fiscal, regulatory, economic, currency exchange rates, exchange control, stock or other financial market conditions, prospects, circumstances or matters; or
 - (iii) any change in the conditions of the Hong Kong or international securities markets (or in conditions affecting a sector, only of such markets); or
 - (iv) without prejudice to sub-paragraph (ii), (iii) above or (v) below, the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise, or minimum prices having been established for securities traded thereon; or
 - (v) without prejudice to sub-paragraph (ii), (iii) or (iv) above, a general banking moratorium is declared by Hong Kong, PRC, Japan or other relevant authorities; or
 - (vi) a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States; or
 - (vii) a change in the exchange rate between the United States dollar, the Hong Kong dollar and the PRC Renminbi; or
 - (viii) a change or development involving a prospective change in taxation or exchange controls (or implementation of any exchange control) in Hong Kong, the BVI, the PRC, Japan or the Cayman Islands or any other jurisdictions relevant to the Company and/or any of its subsidiaries; or
 - (ix) any investigation or litigation or claim being threatened or instituted against any Director or the Company or any of its subsidiaries; or
 - (x) any event, or series of events (including, but without limitation, any act of God, war, riot, public disorder, civil commotion, fire, flood, accident, interruption, explosion, epidemic, terrorism, strike or, lockout); or

UNDERWRITING

(xi) any other change which is ejusdem generis with any of the foregoing;

in each case, which will or might in the sole opinion of Kingsway Financial (for itself and on behalf of the Underwriters) materially and adversely affect (aa) the business or financial condition or prospects of the Group taken as a whole or (bb) the present or prospective Shareholders in their capacity as such or (cc) the success of the Share Offer or (dd) the level of the Placing Shares and/or Public Offer Shares being applied for or accepted, or the distribution of the Offer Shares or which will or might in the sole opinion of Kingsway Financial (for itself on behalf of the Underwriters) makes it inadvisable or inexpedient to proceed with the Share Offer; or

(b) Kingsway Financial or any of the Underwriters becomes aware, or has reasonable cause to believe that:

(i) any statement contained in this prospectus, the application forms and other documents connected with the Share Offer was, when any of such documents was issued, or has become untrue, incorrect or misleading in any respect; or

(ii) any matter has arisen or has been discovered or alleged which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by Kingsway Financial (for itself and on behalf of the Underwriters) in its absolute discretion to be material in the context of the Share Offer or the listing of the Shares on the Main Board; or

(iii) there has occurred any breach, considered by Kingsway Financial (for itself and on behalf of the Underwriters) in its absolute discretion to be material in the context of the Share Offer or the listing of the Shares on the Main Board, of any of the representations and warranties (save for those from the Sponsor, Kingsway Financial and/or any of the Underwriters) contained in the Underwriting Agreements; or

(iv) there has occurred any breach, considered by Kingsway Financial (for itself and on behalf of the Underwriters) in its absolute discretion to be material in the context of the Share Offer, of any of the obligations and provisions of the Underwriting Agreements by any party to the Underwriting Agreements (other than or any of the Sponsor, Kingsway Financial or the Underwriters); or

(v) there has occurred any event, act or omission which gives or is likely to give rise to any material liability of any party to the Underwriting Agreements (except the Sponsor, Kingsway Financial and the Underwriters) pursuant to the warranties or indemnities given in the Underwriting Agreements; or

(vi) there has occurred any adverse change in the business or in the financial or trading position or prospects of any member of the Group taken as a whole or any of its principal customers, suppliers or partners which in the sole opinion of Kingsway Financial (for itself and on behalf of the Underwriters) is material in the context of the Share Offer, or the listing of the Shares on the Main Board.

UNDERWRITING

Undertakings

Each of Kytronics and Au Family Shareholders has jointly and severally undertaken to and covenanted with the Company, the Sponsor, Kingsway Financial, the Underwriters and the Stock Exchange that save pursuant to the stock lending arrangements agreed between any of Kytronics, the Au Family Shareholders and Kingsway Financial in connection with the Share Offer and subject always to the Listing Rules that:

- (i) without the prior written consent of the Sponsor and Kingsway Financial (for itself and on behalf of the Underwriters), which they may withhold in their reasonable discretion regardless of whether or not the Stock Exchange shall have consented thereto, it/he/she shall not, and shall procure that any registered holder(s) controlled by it/him/her or nominees or trustees holding in trust for it/him/her shall, within the period commencing from the date by reference to which disclosure of shareholding of it/him/her is made in this prospectus and ending on the date which is six months from the Listing Date, sell, transfer or otherwise dispose of or create any options, rights, interests or encumbrances (save pursuant to a pledge or charge as security for a bona fide commercial loan) over or in respect of, or agree to do any of the foregoing in respect of, any of the Shares or any interests therein owned by it/him/her or in which it is, directly or indirectly, interested immediately after the completion of the Share Offer and the Capitalisation Issue (or any other Shares or securities of or interest in the Company arising or deriving therefrom) or dispose of or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances over or in respect of any shares in any company controlled by it/him/her which owns any of such Shares provided that the foregoing restriction shall not apply to any Shares which it/he/she or any of its/his/her associates may acquire following the Listing Date;
- (ii) without the prior written consent of the Sponsor and Kingsway Financial (for itself and on behalf of the Underwriters), within six months commencing on the day immediately following the expiry of the period mentioned in paragraph (i) above, it/he/she shall not, and shall procure that no registered holder(s) controlled by it/him/her or nominees or trustees holding in trust for it/him/her shall, dispose of or enter into an agreement to dispose of or otherwise create any options, rights, interests or other encumbrances over or in respect of, or agree to do any of the foregoing in respect of, any Shares or any interests therein referred to in paragraph (i) above or dispose of or enter, into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances over or in respect of any shares in any company controlled by it which owns any of such Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, any of them, either individually or taken together with the others, would cease to be a controlling Shareholder (within the meaning of the Listing Rules) of the Company or cease to hold a controlling interest (that is to say, an interest of over 30% or such lower amount as may from time to time be specified in the Hong Kong Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) in any of the companies controlled by it/him/her which owns any such Shares; and

UNDERWRITING

- (iii) in the event of any disposal of Shares or any interests therein (including any interest in a company which holds any Shares or other securities of the Company) after the expiry of the six-month period referred to in (i) above but before the expiry of the further six-month period referred to in paragraph (ii) above, he/she/it shall take all reasonable steps to ensure that such a disposal will not create a false or disorderly market in the Shares.

The Company has undertaken to and covenanted with the Sponsor, Kingsway Financial and the Underwriters that without the prior written consent of the Sponsor and Kingsway Financial (for itself and on behalf of the Underwriters):

- (i) the Company shall not, save pursuant to the Share Offer, the Capitalisation Issue, the exercise of the Over-allotment Option, the grant of any option under the Share Option Scheme or the exercise of any option granted under the Share Option Scheme or any scrip dividend schemes or similar schemes providing for the allotment and issue of Shares in lieu of all or part of a dividend in accordance with the Articles;
- (a) within the period of six months from the Listing Date, allot and issue or agree to allot and issue any shares or securities in the Company or in any of its subsidiaries or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for, any securities of the Company or any of its major subsidiaries (as defined in rule 13.25(2) of the Listing Rules) or announce an intention to do so;
- (b) within a further six months following the six-month period referred to in (a) above, issue or agree to issue any shares or securities in the Company or any of its subsidiaries or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into or exchange for, any Shares or securities in the Company or, any of its major subsidiaries (as defined aforesaid) or announce an intention to do so as to result in Kytronics or the Au Family Shareholders, either taken individually or, taken together, ceasing to be a controlling Shareholder (within the meaning of the Listing Rules) of the Company; and
- (ii) no Group member shall within the period of six months from the Dealing Date purchase any securities of the Company.

The Company has undertaken to and covenanted with the Sponsor, Kingsway Financial and the Underwriters that save with the prior written consent of the Sponsor and Kingsway Financial (for themselves and on behalf of the Underwriters), no company in the Group shall within the period of six months from the Listing Date purchase any securities of the Company.

UNDERWRITING

Each of the executive Directors, the Au Family Shareholders and Kytronics Holdings has undertaken and covenanted with the Company, the Sponsor, Kingsway Financial and the Underwriters not to and to procure that none of its/his/her associates or the companies controlled by or nominees or trustees holding in trust for it/him/her shall, within the period of 12 months from the Listing Date, pledge, charge, encumber, or create any third-party rights in respect of any of the Shares or securities of the Company beneficially owned by any of them (whether directly or indirectly) or agree to do so save with the prior written consent of the Sponsor and Kingsway Financial (for itself and on behalf of the Underwriters).

Each of the executive Directors, the Au Family Shareholders and Kytronics Holdings has undertaken and covenanted with the Company, the Sponsor, Kingsway Financial and the Underwriters that if during the period of 12 months from the Listing Date consent is granted by the Sponsor and Kingsway Financial pursuant to the paragraph above to pledge, charge, encumber or create any third party rights in respect of any of the Shares or securities of the Company beneficially owned by an authorised institution (as defined in the Banking Ordinance, Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan, it shall:

- (i) immediately provide the Company, the Sponsor and Kingsway Financial (for itself and on behalf of the Underwriters) with details of such arrangement in writing prior to entering into such arrangement; and
- (ii) immediately inform the Company, the Sponsor and Kingsway Financial (for itself and on behalf of the Underwriters) when it receives indications, either verbal or written, from the relevant pledgee or chargee as to the disposal of any of the pledged or charged Shares.

The Company undertakes and covenants with each of the Sponsor, Kingsway Financial and the Underwriters that the Company shall inform the Sponsor and Kingsway Financial (for itself and on behalf of the Underwriters) in writing immediately after it has been informed of the matters referred to in paragraphs (i) and (ii) above and the Company shall, if so required by the Stock Exchange or the Listing Rules, disclose such matters by way of an announcement which is published in the newspapers as soon as possible.

Commission

The Underwriters will receive a commission of 2.5% of the aggregate Offer Price of the Offer Shares, out of which they will pay any sub-underwriting commissions. The Sponsor will receive a documentation fee. The underwriting commission, documentation fee, Stock Exchange listing fees and trading fee, SFC investor compensation and transaction levies, legal and other professional fees together with printing and other expenses relating to the Share Offer are currently estimated to amount to approximately HK\$22.5 million in total (assuming that the Over-allotment Option is not exercised) and are payable by the Company.

Underwriters' and Sponsor's interests in the Company

Save for its obligations under the Underwriting Agreements, none of the Underwriters and the Sponsor has any shareholding interest in the Company or any member of the Group or has any right (whether legally enforceable or, not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group. In addition, the Underwriters and Sponsor and/or their associates may subscribe for Shares under the Share Offer for their own account.

UNDERWRITING

Over-allotment Option

The Company has granted to the Placing Underwriters, exercisable by Kingsway Financial, the Over-allotment Option to require the Company to issue up to 18,750,000 additional Shares solely for the purposes of satisfying excess demand under the Placing, if any.

Details of the Over-allotment Option are set out in the paragraph headed “Over-allotment Option” under the section headed “Structure of Share Offer” in this prospectus.