
STRUCTURE OF SHARE OFFER

THE SHARE OFFER

The Share Offer comprises the Placing and the Public Offer. Assuming the Over-allotment Option is not exercised, the Offer Shares offered in the Share Offer, totalling 125,000,000 Shares, will represent 25% of the enlarged issued share capital of the Company immediately following completion of the Share Offer and the Capitalisation Issue. The number of Shares offered for subscription under the Share Offer may be increased by an aggregate of up to 18,750,000 additional new Shares upon exercise in full of the Over-allotment Option as described under the paragraph headed “Over-allotment Option” in this section. Investors are free to select whether to apply under the Public Offer or indicate their interest for Shares under the Placing, but may not do both.

PRICE PAYABLE ON APPLICATION

The Offer Price of HK\$1.14 per Share plus a 1% brokerage fee, a 0.005% SFC transaction levy, a 0.002% SFC investor compensation levy and a 0.005% Stock Exchange trading fee is payable in full on application.

THE PLACING

Placing

The Company is offering for subscription by way of Placing, initially 112,500,000 Offer Shares, representing 90% of the total number of Offer Shares initially being offered under the Share Offer, subject to re-allocation as mentioned in the paragraph headed “The Public Offer” below and to the Over-allotment Option.

It is expected that the Placing Underwriters, on behalf of the Company, will conditionally place the Placing Shares with selected professional, institutional or individual investors in Hong Kong, subject to certain restrictions. Professional and institutional investors generally include brokers, dealers, companies and 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 subject to the conditions stated in the paragraph headed “Conditions of the Share Offer” below.

Placing allocation factors

Allocation of the Placing Shares to professional, institutional and individual investors pursuant to the Placing will be based on a number of factors, including the level and timing of demand, total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the investor is likely to buy further Shares, or hold or sell its Shares, after the listing of the Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional, institutional and individual shareholder base to the benefit of the Company and the Shareholders as a whole.

STRUCTURE OF SHARE OFFER

THE PUBLIC OFFER

Public Offer

The Company is initially offering 12,500,000 Offer Shares for subscription under the Public Offer, representing 10% of the total number of Offer Shares initially being offered under the Share Offer, assuming that the Over-allotment Option is not exercised, subject to re-allocation as mentioned below.

The Public Offer is open to all members of the public in Hong Kong as well as to institutional and professional investors. Applicants for the Public Offer Shares under the Public Offer may not apply for the Placing Shares under the Placing. The Public Offer Shares are fully underwritten subject to the conditions stated in the paragraph headed “Conditions of the Share Offer” below.

Paragraph 3 of Practice Note 18 of the Listing Rules requires that the total number of Public Offer Shares be divided equally into two pools: Pool A and Pool B. All valid applications that have been received for Public Offer Shares to a value (excluding brokerage, Stock Exchange trading fee, SFC transaction levy and investor compensation levy payable thereon) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Public Offer Shares to a value (excluding brokerage, Stock Exchange trading fee, SFC transaction levy and investor compensation levy payable thereon) of more than HK\$5 million and up to the total value of Pool B will fall into Pool B.

In accordance with Practice Note 18 of the Listing Rules, Public Offer Shares in each of Pool A and Pool B are available on an equitable basis to applications falling within each pool.

Applicants should be aware that applications in the same pool, as well as applications in different pools, are likely to receive different allocation ratios. If one (but not both) of the pools is undersubscribed, the unsubscribed Shares will be transferred to the other pool for allocation. Applicants may only receive Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than the total number of the Public Offer Shares initially available in either Pool A or Pool B are liable to be rejected.

Offer mechanism — basis of allocation of the Public Offer Shares

The attention of applicants, including nominees who wish to submit separate applications on behalf of different beneficial owners, is drawn to the information regarding multiple applications contained in the section headed “How to apply for the Public Offer Shares” in this prospectus. Multiple or suspected multiple applications and any application for more than 100% of the Public Offer Shares initially available for subscription under the Public Offer in either Pool A or B will be rejected. There will initially be a total of 12,500,000 Public Offer Shares to be offered for subscription under the Public Offer.

If the Public Offer is under subscribed, Kingsway Financial (acting for itself and on behalf of the Underwriters) has the authority to re-allocate all or any of the unsubscribed Public Offer Shares originally included in the Public Offer to the Placing in such proportion and in such manner as it considers appropriate.

Over-subscription

Allocation of Public Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received. 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.

STRUCTURE OF SHARE OFFER

However, this 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 applicants who are not successful in the ballot may not receive any Public Offer Shares.

The initial allocation of Offer Shares between the Public Offer and the Placing is subject to re-allocation depending on the level of subscription of the Public Offer. The Shares available under the Placing will be re-allocated to the Public Offer on the following basis:

- (a) if the number of Public Offer Shares validly applied for under the Public Offer equals or exceeds 187,500,000 Shares (being 15 times the number of Public Offer Shares initially available under the Public Offer) but is less than 625,000,000 Shares (being 50 times the number of Public Offer Shares initially available under the Public Offer), then Offer Shares will be re-allocated from the Placing to the Public Offer so that a total of 37,500,000 Public Offer Shares will be available under the Public Offer, representing 30% of the Offer Shares initially available under the Share Offer;
- (b) if the number of Public Offer Shares validly applied for under the Public Offer equals or exceeds 625,000,000 Shares (being 50 times the number of Public Offer Shares initially available under the Public Offer) but is less than 1,250,000,000 Shares (being 100 times the number of Public Offer Shares initially available under the Public Offer), then Offer Shares will be re-allocated from the Placing to the Public Offer so that a total of 50,000,000 Public Offer Shares will be available under the Public Offer, representing 40% of the Offer Shares initially available under the Share Offer; and
- (c) if the number of Public Offer Shares validly applied for under the Public Offer equals or exceeds 1,250,000,000 Shares (being 100 times the number of Public Offer Shares initially available under the Public Offer), then Offer Shares will be re-allocated from the Placing to the Public Offer so that a total of 62,500,000 Public Offer Shares will be available under the Public Offer, representing 50% of the Offer Shares initially available under the Share Offer.

In each of the above cases, the number of Offer Shares allocated to the Placing will be correspondingly reduced.

If the Placing is not fully subscribed, Kingsway Financial (acting for itself and on behalf of the Placing Underwriters) may, in its absolute discretion, reallocate all or any unplaced Placing Shares originally included in the Placing to the Public Offer in such proportion and in such manner as it considers appropriate.

CONDITIONS OF THE SHARE OFFER

Acceptance of all applications for Offer Shares is conditional on:

1. Listing

the Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus and the application forms relating thereto; and

STRUCTURE OF SHARE OFFER

2. Underwriting Agreements

The obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated, on or before 8:00 a.m. (Hong Kong time) on the Listing Date, certain details of the Underwriting Agreements and the grounds for their termination are set out in the section headed “Underwriting” in this prospectus.

If these conditions are not fulfilled and/or waived by Kingsway Financial (for itself and on behalf of the Underwriters) on or before 19th July, 2005, your application money will be returned to you, without interest. The terms on which your application money will be returned to you are set out under the paragraph headed “Refund of your application money” in the application forms. Prior to the Share Offer becoming unconditional, your application money will be held in one or, more separate bank account(s) with the receiving banker or, other bank or banks licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

OVER-ALLOTMENT OPTION

Pursuant to the Placing Underwriting Agreement, the Company has granted to the Placing Underwriters, the right, but not the obligation, to exercise the Over-allotment Option, exercisable by Kingsway Financial (for itself and on behalf of the other Placing Underwriters), at any time within 30 calendar days after the last date of lodging the application forms for Public Offer. The Over-allotment Option will lapse if it is not exercised before that time. Pursuant to the Over-allotment Option, Kingsway Financial has the right to require the Company to allot and issue up to an aggregate of 18,750,000 additional Shares, representing 15% of the Shares initially available under the Share Offer at the Offer Price for the sole purpose of covering over-allocations in the Placing. Kingsway Financial may also cover such over-allocations in the Placing by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and exercise of the Over-allotment Option, in part or in full. 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 Shares offered in the Share Offer will represent approximately 27.7% of the Company’s enlarged share capital immediately after completion of the Share Offer and the Capitalisation Issue.

The Company will disclose in the announcement of the level of indication of interests in the Placing, the results of applications and the basis of allotment of the Public Offer Shares whether, and to what extent, the Over-allotment Option has been exercised. In the event the Over-allotment Option has not been exercised by Kingsway Financial, the Company will confirm in such announcement that the Over-allotment Option has lapsed and cannot be exercised at any future date.

The Directors consider that the Over-allotment Option is in the interests of the Company since it provides flexibility for Kingsway Financial and other Placing Underwriter’s to meet any excess demands under the Placing, thereby enabling the Company to maximise its fund raising capability. The Directors estimate that the net proceeds from the full exercise of the Over-allotment Option will be approximately HK\$20.0 million.

STABILISATION IN HONG KONG

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may 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 public offer prices of the securities. In Hong Kong and certain other jurisdictions, activity aimed at reducing the market price is prohibited, and the price at which stabilisation is effected is not permitted to exceed the initial offer price.

STRUCTURE OF SHARE OFFER

In connection with the Share Offer, Kingsway Financial or any person acting for it, on behalf of the Placing Underwriters, may over-allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the issue date. Any market purchases, if any, of Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligations on Kingsway Financial (or any person acting for it) to conduct any such stabilising activity, which, if commenced, will be done in the absolute discretion of Kingsway Financial and may be discontinued at any time. The number of Shares that may be over-allocated will not exceed the number of Shares that may be issued under the Over-allotment Option, being 18,750,000 Shares, represents 15% of the Shares initially available under the Share Offer.

Stabilising action in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules includes (i) over-allocation for the purpose of preventing or minimising any reduction in the market price; (ii) selling or agreeing to sell Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price; (iii) subscribing or purchasing, or agreeing to subscribe or purchase, Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase Shares for the sole purpose of preventing or minimising any reduction in the market price; (v) selling or agreeing to sell Shares to liquidate a long position held as a result of the purchases under (iv); and (vi) offering or attempting to do anything described in (ii), (iii), (iv) and (v). As a result of effecting transactions to stabilise or maintain the market price of the Shares, Kingsway Financial may maintain a long position in the Shares. The size of the long position and the period for which Kingsway Financial will maintain the long position is at the discretion of Kingsway Financial. In the event that Kingsway Financial liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the Shares.

Stabilising action by Kingsway Financial is not permitted to support the price of the Shares for longer than the stabilising period, which begins from the day on which dealings in the Shares on the Main Board commences and ends on the 30th day after the date of closing of the Application Lists of the Public Offer. As a result, demand for the Shares, and its market price, may fall after the end of the stabilising period. Any stabilising action taken by Kingsway Financial may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilising period. Market purchase of the Shares by Kingsway Financial may be made at prices at or below the Offer Price. Whether or not stabilising action has taken place, an announcement will be made within 7 days after the end of the stabilising period in accordance with the Securities and Futures (Price Stabilising) Rules.

As confirmed by the Sponsor, the proposed stabilisation action and the current disclosure in the Prospectus comply with relevant requirements in Securities and Future (Price Stabilising) Rules under the SFO and other relevant laws and regulations.

In order to facilitate the settlement of over-allocations, Kingsway Financial may borrow up to 18,750,000 Shares from Kytronics Holdings, equivalent to the maximum number of Shares to be offered on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement. An application on behalf of the Company has been made to the Stock Exchange for a waiver from strict compliance with rule 10.07(1) of the Listing Rules which restricts the disposal of Shares by controlling shareholders following a new listing, in order to allow Kytronics Holdings to enter into and perform its obligations under the Stock Borrowing Agreement on condition that:

- the Stock Borrowing Agreement will only be effected by Kingsway Financial for settlement of over-allocations in the Placing;
- the maximum number of Shares borrowed from Kytronics Holdings will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option;

STRUCTURE OF SHARE OFFER

- the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements;
- no fee, interest or consideration will be made to Kytronics Holdings in relation to the Stock Borrowing Agreement; and
- the same number of Shares so borrowed must be returned to Kytronics Holdings on or before 5:00 p.m. on the third business day following the earlier of (i) the last day on which the Over-allotment Option may be exercised, or (ii) the day on which the Over-allotment Option is exercised in full and the relevant Shares under the Over-allotment Option have been issued.