
EXCHANGEABLE BONDS

OVERVIEW

On 25 July 2008, Lead Honest, our Company, Lita, Rich Vision, Mr Wu and the Bondholders entered into the Subscription Agreement pursuant to which the Bondholders agreed to purchase, and Lead Honest agreed to issue, secured exchangeable bonds in the amount of US\$50.0 million. The Exchangeable Bonds were issued by Lead Honest on 30 July 2008 (and the investment amount was paid by the Bondholders on the same date).

The issue of the Exchangeable Bonds represents a private funding arrangement between Lead Honest, the controlling shareholder, and the Bondholders. Our Group will have no obligation in relation to the Exchangeable Bonds after Listing of our Company.

Redemption and exchange

At least 50% of the Exchangeable Bonds must be repaid by Lead Honest on the Listing Date. Accordingly, Exchangeable Bonds with principal amount of no more than US\$25 million will remain outstanding from the Listing Date. Lead Honest will raise at least US\$25 million (plus an amount representing interest on the Exchangeable Bonds) through the sale of Sale Shares under the Global Offering for the purpose of settling the redemption of 50% of the Exchangeable Bonds. All the proceeds from the sale of Sale Shares plus US\$2.5 million that will be released from an interest reserve account will be applied towards the redemption of the Exchangeable Bonds. Accordingly, more than 50% of the Exchangeable Bonds may be repaid if additional proceeds from the sale of Sale Shares are received. Lead Honest's current intention is not to complete the Global Offering unless sufficient funds are raised to satisfy the redemption of at least 50% of the Exchangeable Bonds on the Listing Date or unless the Bondholders consent to waiving the requirement that 50% of the Exchangeable Bonds be redeemed on the Listing Date. Lead Honest has entered into an arrangement with the Sole Sponsor pursuant to which all of the proceeds from the sale of Sale Shares under the Global Offering will be set aside to settle the redemption of the Exchangeable Bonds on the Listing Date. These proceeds will not be under the control of Lead Honest and the Sole Sponsor will be required to ensure that the proceeds are transferred directly to the Bondholders in order to ensure settlement of the redemption as required by the terms and conditions of the Exchangeable Bonds.

The remaining principal amount of the Exchangeable Bonds will be exchanged into Shares held by Lead Honest during the eight business day period commencing on the date after the expiry of the six-month mandatory lock-up period required by Listing Rule 10.07(1)(a). The exchange of the Exchangeable Bonds into Shares is not an option to Lead Honest. The Exchangeable Bonds will be exchanged into existing Shares held by Lead Honest (rather than newly issued Shares by our Company). Accordingly, the exchange will not affect the number of Shares in issue and there will be no direct impact to our Company because the Exchangeable Bonds will be exchanged into Shares held by Lead Honest (our controlling shareholder). Our Company is not and will not be obliged to issue any new Shares in connection with exchange (or issue) of the Exchangeable Bonds.

The number and percentage of our Shares that the Bondholders will hold on exchange of the Exchangeable Bonds will depend on the applicable "Exchange Price" which in turn depends on the market price of our Shares prior to the date of the exchange. The Exchange Price will be the lower of: (i) the Offer Price in U.S. dollars and (ii) the volume weighted average price of our Shares over the period of five consecutive trading days ending on the day immediately before the exchange date in U.S. dollars. Accordingly, there will be no discount to the Offer Price — if the market price of our Shares

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prior to the exchange is higher than the Offer Price, the exchange price will be the Offer Price. If the market price of our Shares prior to the exchange is lower than the Offer Price, the exchange price will be the five day volume weighted average price of our Shares.

The Bondholders are not entitled to any Shares at the Listing Date, as the Exchangeable Bonds can only be exchanged after the six-month lock-up period after Listing. The reduced amount of principal outstanding in respect of the Exchangeable Bonds and the related interest will be eligible for conversion into Shares at this time. Assuming that the Bondholders convert the remaining amount of principal outstanding in respect of the Exchangeable Bonds (excluding applicable interest) at the first instance after the six-month lock-up period, they will be entitled to approximately 6.19% and 1.60% of the total Shares outstanding at the lower-end of the Offer Price range of HK\$4.35 per Offer Share and at the higher-end of the Offer Price range of HK\$6.25 per Offer Share, respectively. However, there can be no assurance that the market price of our Shares will be higher than the Offer Price. If the market price of our Shares is lower than the Offer Price on the date of exchange, the exchange price will be the five day volume weighted average price of our Shares. Accordingly, the Bondholders will receive a higher percentage of the total Shares if the market price is lower than the Offer Price on the date of exchange. The percentage of Shares that the Bondholders will receive will increase as the market price of Shares decreases. In order to ensure compliance with Listing Rule 10.07(1)(b), the exchange right will be capped such that after the exercise of the exchange right Lead Honest will not hold less than 30% of the total Shares. Any Exchangeable Bonds which cannot be exchanged into Shares because of the 30% cap will be settled with cash. As a result of the 30% cap, the maximum percentage of total Shares which the Bondholders can receive on exchange will be 45% (with each Bondholder holding 22.5% each of the total Shares). The two Bondholders are not acting, and will not act, together such that their combined shareholding interests would render them becoming a new controlling shareholder.

Pursuant to the terms and conditions of the Exchangeable Bonds, in order to ensure compliance with Listing Rule 10.07(1)(b), the right to exchange the Exchangeable Bonds into Shares will be capped such that after exercise of the exchange right, Lead Honest will not hold less than 30% of the total issued share capital of our Company. Any Exchangeable Bonds which cannot be exchanged into Shares because of the 30% cap will be settled with cash. As agreed by the Bondholders, during the 12 month lock-up period stipulated in Listing Rule 10.07, Lead Honest will remain the controlling shareholder of our Group after exchange of the Exchangeable Bonds. Therefore the exchange will not result in a change in control of our Group. However, if Lead Honest does not have sufficient financial resources to settle the cash amount or to redeem the Exchangeable Bonds should the Bondholders exercise their early redemption right within the 12 month lock-up period, the existing share mortgage (between Lead Honest, as the mortgagor, and The Hongkong and Shanghai Banking Corporation Limited (“Share Mortgage Trustee”), as the mortgagee) will not be released and will continue to be in effect. Under the share mortgage, Lead Honest has mortgaged all of its Shares in favor of the Share Mortgage Trustee who in turn holds the Shares in favor of the Bondholders as continuing security for Lead Honest’s obligations in respect of the Exchangeable Bonds. The Bondholders have agreed not to take any action in relation to the two situations noted above during the 12 month lock-up period stipulated in Listing Rule 10.07, which will cause Lead Honest to hold less than 30% of the total Shares in issue and cease to be the controlling shareholder of our Company. After the 12 month lock-up period has expired and Lead Honest is able to freely deal with its remaining Shares, Lead Honest will satisfy the outstanding cash amount in relation to the two situations noted above by either transferring Shares to the Bondholders equal in value to the cash amount or selling some or all of its Shares to raise the cash amount. If this occurs, Lead Honest will hold less than 30% of the total Shares in issue and will therefore cease to be our controlling shareholder.

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Upon exchange of their Exchangeable Bonds into Shares, which will only take place after the expiry of the 6 month mandatory lock-up period applicable to our Shares held by Lead Honest, the Bondholders will not be subject to any lock-up arrangements. Our Company will make an announcement for any transfer of Shares from Lead Honest to the Bondholders after Listing.

Special rights granted to Bondholders

Under the terms of the Pre-IPO Investment, while any Exchangeable Bond remains outstanding, the Bondholders have the right, but are not obliged, to appoint up to two persons to the Board. The Bondholders have not appointed any such directors. The Bondholders' right to appoint directors to the Board terminates on the Listing Date.

Accordingly, all special rights granted to the Bondholders will cease upon Listing.

Security provided to Bondholders

Our Company and our subsidiaries provided to the Bondholders certain security in connection with the Pre-IPO Investment.

On 26 July 2008, Lita entered into a PRC equity pledge in favor of the Bondholders in respect of the 95% equity interest in Fubon Industrial owned by it as continuing security for the due and punctual performance of certain obligations of Lead Honest under the Subscription Agreement ("PRC Share Pledge (Lita)").

On 29 July 2008, our Company entered into a security agreement in favor of The Hongkong and Shanghai Banking Corporation Limited (as security agent in connection with the Pre-IPO Investment) in respect of all the assets held by us as continuing security for the due and punctual performance of certain obligations of Lead Honest under the Subscription Agreement ("Company Security Agreement").

On 29 July 2008, Lita entered into a security agreement in favor of The Hongkong and Shanghai Banking Corporation Limited (as security agent in connection with the Pre-IPO Investment) in respect of all the assets held by it as continuing security for the due and punctual performance of certain obligations of Lead Honest under the Subscription Agreement ("Lita Security Agreement").

On 29 July 2008, Lita entered into a share mortgage in favor of The Hongkong and Shanghai Banking Corporation Limited (as security agent in connection with the Pre-IPO Investment) in respect of all the issued shares in Rich Vision held by it as continuing security for the due and punctual performance of certain obligations of Lead Honest under the Subscription Agreement ("HK Holdco Share Mortgage").

On 29 July 2008, Rich Vision entered into a security agreement in favor of The Hongkong and Shanghai Banking Corporation Limited (as security agent in connection with the Pre-IPO Investment) in respect of all the assets held by it as continuing security for the due and punctual performance of certain obligations of Lead Honest under the Subscription Agreement ("HK Holdco Security Agreement").

Any security created under each of the Company Security Agreement, Lita Security Agreement, HK Holdco Share Mortgage, PRC Share Pledge (Lita) and HK Holdco Security Agreement will be released on or prior to the Listing Date.

Each of the Bondholders is an independent third party.

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Lead Honest's application of the proceeds from the issue of the Exchangeable Bonds

The outstanding shareholders' loans provided by our controlling shareholder and its associates to our Group have been repaid using part of the proceeds of the Pre-IPO Investment as follows:

- on the closing of the Pre-IPO Investment, Lead Honest received a total subscription amount of US\$50 million from the Bondholders. From this amount, Lead Honest used a U.S. dollar equivalent of HK\$253,815,919 to subscribe for 253,815,919 Shares in our Company at par value of HK\$1.00 per Share on 30 July 2008. Lead Honest used a portion of the subscription amount together with a cash contribution by our controlling shareholder to subscribe for 188,126,796 additional shares in our Company for a U.S. dollar equivalent of HK\$188,126,796 on 21 August 2008;
- our Company subscribed for 32,128,597 and 23,813,519 shares in Lita with a U.S. dollar equivalent of HK\$253,815,919 and HK\$188,126,796 at par value of US\$1.00 per share on 30 July 2008 and 21 August 2008, respectively. For the purposes of this subscription, the US\$: HK\$ exchange rate was fixed at 1:7.9;
- Lita made a capital contribution to Fubon Industrial's capital verification account in the PRC of HK\$302,376,796 (equivalent to approximately RMB265,092,000) which was used to repay the amounts due to our controlling shareholder and its associates; and
- the remaining HK\$16,549,919 (equivalent to approximately RMB14,506,000) was used to discharge a loan outstanding between Lita and Mr Wu.

The process described above has been completed and, accordingly, all the amounts due to our controlling shareholder and its associates have now been repaid. Our legal adviser as to PRC laws, King & Wood, confirmed that the capital injection process described above was completed in compliance with the relevant PRC laws and regulations.

After the repayment of all the outstanding shareholders' loans, the remaining proceeds from the issuance of the Exchangeable Bonds have been used for general working capital, except with respect to the balance maintained in Lead Honest's Interest Reserve Account which is required to be maintained pursuant to the terms and conditions of the issue of the Exchangeable Bonds. As at the Latest Practicable Date, the balance of the Interest Reserve Account was approximately US\$5 million.

None of the proceeds of the Global Offering will be used to repay any outstanding shareholders' loans as all such loans have been repaid using the proceeds from the Pre-IPO Investment.

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PRINCIPAL TERMS AND CONDITIONS OF THE EXCHANGEABLE BONDS

Pursuant to the Subscription Agreement, Lead Honest issued the Exchangeable Bonds to the Bondholders on 30 July 2008. The following is a summary of the principal terms and conditions of the Exchangeable Bonds.

Issuer	:	Lead Honest Management Limited
Principal amount	:	US\$50,000,000
Holder(s) of the Exchangeable Bonds	:	Credit Suisse, Singapore Branch and Dynamic Spot Holdings Limited (a wholly-owned subsidiary of LAPP Strategic Master Fund I)

Credit Suisse, Singapore Branch is the Singapore branch of Credit Suisse incorporated in Switzerland and a wholly owned subsidiary of Credit Suisse Group. Its business involves private banking and investment banking.

LAPP Strategic Master Fund I is an exempted company incorporated with limited liability in the Cayman Islands. It focuses on investing in the Asia Pacific region.

Term	:	A period from 30 July 2008 (the “Issue Date”) to the Maturity Date (as defined below) (the “Term”)
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Maturity Date	:	The date falling 12 months from the Issue Date (the “Original Maturity Date”) or, after the delivery of a notice of extension, the date falling 24 months from the Issue Date (the “Extended Maturity Date”, and together with the Original Maturity Date, the “Maturity Date”). The Bondholders may, at their option, having voted unanimously and by written notice delivered to the trustee by not later than ten business days before the Original Maturity Date, extend the maturity of the Exchangeable Bonds from the Original Maturity Date to a date falling 12 months after the Original Maturity Date, if the Global Offering has not yet occurred by the Original Maturity Date.
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Interest : Interest is payable on the Exchangeable Bonds at the rate of 20% per annum on the principal amount of the Exchangeable Bonds outstanding from time to time. Interest is payable quarterly in arrears on each date (each an “Interest Payment Date”) which falls three months after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Issue Date, commencing on the date falling three months after the Issue Date to and including the Maturity Date. The length of each interest period shall be of a duration of three months (“Interest Period”). In respect of each Interest Period, interest shall be calculated on the basis of the actual number of days elapsed in a year of 360 days.

Exchange right : The Bondholders shall have the right to exchange (“Exchange Right”) the whole of (but not part of) the outstanding principal amount of the Exchangeable Bonds into Exchange Shares on any date falling after the last date of the period starting from the Listing Date over which the Stock Exchange imposes a mandatory lock-up on the transfer of any Exchange Shares (“Lock-up Expiration Date”) to (and including) the close of business on the eighth Stock Exchange Business Day after the Lock-up Expiration Date (“Exercise Period”).

If the Bondholders fail to exercise their Exchange Right, the Exchange Right is deemed to be exercised on the seventh stock exchange trading day of the Exercise Period.

Subject to certain Exchange Price adjustment mechanisms, the number of Exchange Shares to be delivered on exchange of an Exchangeable Bond will be determined by the following formula:

$$\frac{A}{B}$$

Where:

A is the Nominal Exchange Amount of that Bond; and

B is the Exchange Price in effect at an Exchange Date.

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The **Nominal Exchange Amount** of an Exchangeable Bond means:

$$R_2 = P_2 \times \left[1 + \left(50\% \times \frac{D_3}{360} \right) \right] - I_2$$

where:

P₁ = the Principal Amount Outstanding of that Exchangeable Bond;

P₂ = $P_1 \times [1 + (40\% - 20\%)]$;

D₃ = the number of days from and including the first anniversary of the Issue Date to but excluding the Settlement Deadline; and

I₂ = interest payment received and to be received in respect of that Exchangeable Bond in respect of P₂ between the first anniversary of the Issue Date to the Settlement Deadline.

Settlement Deadline means two Business Days after an exchange date.

The **Exchange Price** shall be determined by the Bondholder exercising an Exercise Right being the lower of (i) the Offer Price (in US dollars as determined using a rate of exchange equal to the mid-exchange rate between the relevant currency and US dollars quoted by The Hongkong and Shanghai Banking Corporation Limited or failing which any other bank of international repute selected by The Hongkong and Shanghai Banking Corporation Limited acting as trustee at 11:00 a.m. (Hong Kong time) (the “spot rate”) on the Listing Date) and (ii) the arithmetic average of the daily volume weighted average price over the period of five consecutive trading days ending on the day immediately before an Exchange Date, converted into US dollars at the spot rate as at the Listing Date (the “Average Price”) or, if the application of the Average Price is prohibited for whatever reason (including by the Stock Exchange or under the Listing Rules) and a higher Exchange Price is instead required to be applied, such higher price (the “Mandatory Exchange Price”).

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If the number of Exchange Shares to be delivered per Exchangeable Bond as determined by the formula above is not a whole number, it will be rounded up to the nearest whole number.

If a Mandatory Exchange Price applies, the Issuer must pay in cash to each Bondholder exercising the Exchange Right an amount equal to $C \times D$ where:

C = the number of Exchange Shares transferable to that Bondholder by exercising the Exchange Right; and

D = the difference between the Mandatory Exchange Price and the Average Price per Share.

If such compensation is prohibited for whatever reason (including by the Stock Exchange or under the Listing Rules), the Issuer and The Hongkong and Shanghai Banking Corporation Limited acting as trustee shall, acting on the unanimous instructions of the Bondholders, agree in good faith to make such amendments to the finance documents relating to the Pre-IPO Investment as may be necessary to reflect the position of the obligors and the finance parties under the Pre-IPO Investment as if such compensation were not prohibited.

Maturity : On the Maturity Date, Lead Honest shall repay to the Bondholders the outstanding principal amount of the Exchangeable Bonds together with the interest and premium accrued thereon up to and excluding the date of repayment.

Partial and Early redemption of Exchangeable Bonds : On the initial public offering of the Shares in our Company, on the Listing Date, the Issuer must redeem 50% of the Principal Amount Outstanding of each Exchangeable Bond held by each Bondholder.

In addition, the Bondholders (or any of them) have the right to require an early redemption of the Exchangeable Bonds if the Share Security Value (as defined below) is less than four times the then applicable aggregate exchange amount (which is the Nominal Exchange Amount).

Share Security Value, on a day, means the value calculated by the formula below:

$$V = A \times B$$

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Where:

V is the Share Security Value on that day;

A is the closing market price in US dollars of each Share quoted by the Stock Exchange on that day, provided that, if the closing market price is not in US dollars, the value of such amount shall be its equivalent in US dollars as determined using a rate of exchange equal to the mid-exchange rate between the relevant currency and US dollars quoted by The Hongkong and Shanghai Banking Corporation Limited or failing which any other bank of international repute selected by The Hongkong and Shanghai Banking Corporation Limited (acting as trustee in connection with the Pre-IPO Investment) at 11:00 a.m. (Hong Kong time) on the date on which the Share Security Value is determined, and if no closing market price is quoted by the Stock Exchange on that trading day, the Share Security Value shall be deemed to be zero; and

B is the number of Secured Shares on that day.

Secured Shares means any Shares of our Company which are secured under the security documents in connection with the Pre-IPO Investment.

If the date of calculation of the Nominal Exchange Amount is on or prior to the Original Maturity Date, then the following formulae is used:

$$R_1 = P_1 \times (1 + 40\%) - I_1$$

where:

P₁ = the Principal Amount Outstanding of that Exchangeable Bond; and

I₁ = interest payment received from the Issue Date and to be received in respect of that Exchangeable Bond.

If the date of calculation of the Nominal Exchange Amount is after the Original Maturity Date, then the formulae to calculate the Nominal Exchange Amount in the “Exchange right” section is used.

Governing law : English law