
IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



CHINA DATA BROADCASTING HOLDINGS LIMITED

(中華數據廣播控股有限公司*)
(incorporated in Bermuda with limited liability)

PLACING

Number of Placing Shares	:	30,000,000 (subject to Over-allotment Option)
Placing price	:	not less than \$1.18 per Share and not more than \$1.30 per Share
Nominal value	:	\$0.10 each
Stock code	:	8016

PROPOSED LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Sponsor and Manager



Oriental Patron Asia Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrars of Companies" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong. A copy of this prospectus has also been filed with the Registrar of Companies in Bermuda. The Securities and Futures Commission, the Registrar of Companies in Hong Kong and the Registrar of Companies in Bermuda take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Placing Price is expected to be fixed by Oriental Patron and the Company on or before 17th January, 2000. If, for any reason, the Placing Price is not determined on or before 17th January, 2000, the expected timetable will be postponed, but in any event, the expected dates of determination of the Placing Price and commencement of dealings in the Shares on GEM will not be later than 1st February, 2000 and 9th February, 2000 respectively. If, for any reason, the Placing Price is not agreed between the Company and Oriental Patron by 1st February, 2000, the Placing will not proceed.

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website of <http://www.hkgem.com> operated by the Stock Exchange. Companies listed on GEM are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

Determination of Placing Price on or before ⁽¹⁾	Monday, 17th January, 2000
Subscription lists open and close 11:45 a.m. to 12:00 p.m. on	Thursday, 20th January, 2000
Allocation to placees on or before	Thursday, 20th January, 2000
Announcement of the level of indication of interest of the Placing to be published on the GEM website on	Friday, 21st January, 2000
Share certificates available on or before ⁽²⁾⁽³⁾	Friday, 21st January, 2000
Dealings in the Shares on GEM to commence on or about	Monday, 24th January, 2000

No allotment of the Shares shall be made before 20th January, 2000. For details of the structure of the Placing, see the section headed “Placing structure and expenses” on pages 102 to 105 of this prospectus.

Notes:

- (1) If, for any reason, the Placing Price is not determined on or before 17th January, 2000, the expected timetable will be postponed, but in any event, the expected dates of determination of the Placing Price and commencement of dealings in the Shares on GEM will not be later than 1st February, 2000 and 9th February, 2000 respectively. If, for any reason, the Placing Price is not agreed between the Company and Oriental Patron by 1st February, 2000, the Placing will not proceed.
- (2) The Placing is not underwritten and is conditional upon, among other things, a minimum amount of \$35.4 million being raised under the Placing and the relevant consideration being received before the commencement of dealings in the Shares on GEM. The Placing will not proceed if this condition is not fulfilled on or before 21st January, 2000 or such later date as may be agreed by the Company and Oriental Patron (in case the Placing Price is not determined on or before 17th January, 2000), but in any event not later than 8th February, 2000.
- (3) The share certificates are expected to be issued in the name of HKSCC Nominees Limited and deposited into CCASS on or about 21st January, 2000 for credit to the relevant CCASS participants’ accounts.

CONTENTS

You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made nor contained in this prospectus must not be relied on by you as having been authorised by the Company, Oriental Patron, the directors of any of them, or any other person involved in the Placing.

	<i>Page</i>
Summary	
Business	1
Trading record	4
Future plans and prospects	7
Reasons for the Placing and use of proceeds	8
Placing statistics	10
Risk factors	10
Minimum subscription	12
Definitions	13
Glossary of terms	16
Risk factors	19
Waivers	30
Information about this prospectus and the Placing	33
Directors and parties involved in the Placing	37
Corporate information	39
Industry overview	40
Business	
History and development	47
Statement of active business pursuits	51
Group structure	56
Description of business	57
Products and services	59
Pricing	61
Purchases and supplies	63
Sourcing of contents for data broadcasting	65
Manufacturing/production	65
Quality control	67
Sales and marketing	67
Research and development	68

CONTENTS

	<i>Page</i>
Intellectual property	69
Strategic alliance	70
Competition	72
Relationship with the Genius Group and Tianjin University	73
Continuing Connected Transactions	74
Year 2000 compliance issue	77
Directors, senior management and staff	
Directors	78
Audit committee	79
Senior management	79
Staff	79
Substantial and Management Shareholders	
Substantial Shareholder	81
Management Shareholders	81
Operation of the trust	82
Undertakings	83
Share capital	84
Financial information	
Indebtedness	86
Disclosure under Chapter 17 of the GEM Listing Rules	86
Liquidity, financial resources and capital structure	86
Trading record	87
Property interests and other assets	90
Dividends	91
Distributable reserves	91
Adjusted net tangible assets	92
No material change	92
Future plans and prospects	
Mission	93
Business objectives	93
Statement of business objectives	95
Reasons for the Placing and use of proceeds	100
Placing structure and expenses	
The Placing	102
Placing proceeds	102
Investor profile	102
Basis of allocation	102

CONTENTS

	<i>Page</i>
Minimum public float	103
Placing arrangements	103
Expenses	104
Fixing of Placing Price	104
Price payable on subscription	104
Conditions of the Placing	104
Sponsor's Interest	106
Appendices	
I. Accountants' report	107
II. Property valuation	119
III. Summary of the constitution of the Company and Bermuda company law	124
IV. Statutory and general information	145
V. Documents delivered and available for inspection	165

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Placing Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" on pages 19 to 29 of this prospectus. You should read that section carefully before you decide to invest in the Company.

BUSINESS

The Group is principally engaged in the business of data broadcasting in the PRC and its main activities include the research, development and sale of data broadcasting hardware and software, the related system integration, technical support and consultancy service, the planning, sourcing and production of multimedia contents for data broadcasting, and the sale of software. The Group currently conducts its business in the PRC only.

Data broadcasting adopts technologies of transmitting digital data over terrestrial, cable or satellite TV networks via analog TV signals broadcasting. Data broadcasting system facilitates the transmission of a wide range of multimedia information through existing TV networks without interfering with TV pictures. Text, pictures, graphics, audio and even video signals can all be encoded in analog TV signals and transmitted by means of TV broadcasting. Reception modules are needed for receiving and decoding data broadcasting signals and they currently take the form of PC plug-in boards or TV set top boxes.

As data broadcasting adopts technologies of transmitting digital data through the existing infrastructure of the TV network operators, substantial investment and time cost for infrastructure construction can be saved.

The Group's products and services comprise data broadcasting hardware and software, namely, transmission modules and reception modules for data broadcasting, contents for data broadcasting, software and system integration, technical support and consultancy service. At present, the Group's transmission modules have evolved to VBI data broadcasting transmission modules model V and FC data broadcasting transmission modules model II. The Group's reception modules have evolved to PC plug-in boards model V, financial TV set top boxes model I and multimedia TV set top boxes model I. All the new models of transmission and reception modules provided by the Group adopt more advanced data broadcasting technology or different applications and specifications as compared to their respective older models.

Data broadcasting contents provided by the Group currently include distance education contents, real-time stock quotation, electronic newspapers and magazines, music, shareware and other contents from the Internet.

The Group's FC data broadcasting system and FC distance education system were accredited as at the PRC's leading level by Tianjin Municipal Science and Technology Commission in July 1999. In addition, the Group applied, in July 1999, for a patent for the utility model of its multimedia TV set top boxes for FC data broadcasting which are capable of processing large chunks of multimedia information.

SUMMARY

The Group contributes free-of-charge or provides transmission modules for VBI and/or FC data broadcasting, together with the necessary technical support, to TV network operators to induce them to install the Group's data broadcasting transmission system. This strategy introduces the TV networks and the subscribers of these networks to data broadcasting technology and secures demand for data broadcasting products and services, which will in turn contribute to the growth of the Group's data broadcasting business and the Group's future income from the sales of reception modules. In addition, the Group shares income derived from data broadcasting service subscription with strategically allied TV network operators. As at the Latest Practicable Date, the Group has established strategic alliance with 103 TV network operators in the PRC who install the Group's data broadcasting transmission modules, 14 of which have entered into cooperative agreements with the Group for sharing of income derived from data broadcasting service subscription.

The major sources of the Group's revenue include the sales of reception modules and software and sharing of income derived from data broadcasting service subscription with strategically allied TV network operators. For the two years ended 31st December, 1998 and the six months ended 30th June, 1999, the turnover of reception modules accounted for approximately 64.8%, 80.1% and 84.1% of the Group's total turnover for the respective period while the turnover of software accounted for approximately 35.2%, 14.4% and 10.2% of the Group's total turnover for the respective period. Income derived from data broadcasting service subscription was first recorded by the Group during the financial year ended 31st December, 1998 and accounted for approximately 5.5% and 5.6% for the year ended 31st December, 1998 and the six months ended 30th June, 1999 respectively.

The Group's research and development department comprises 18 employees as at the Latest Practicable Date, accounting for approximately 34.0% of the Group's total headcount. Among the Group's 18 research and development staff, there are two Ph.D degree holders, three Master's degree holders and 12 Bachelor's degree holders.

At present, Internet can be accessed in the PRC mainly through telephone networks whereas data broadcasting transmits digital data through TV networks. Due to the quality of the existing telephone networks in the PRC, the maximum transmission rate of dial-up connection to Internet in the PRC through telephone networks is approximately 33.6 Kbps whereas the transmission rate of VBI and FC data broadcasting can be up to approximately 256 Kbps and 5 Mbps respectively. While Internet users in the PRC are complaining about the high cost, long delays and slow response in accessing the Internet due to the price structure of telecommunication services, narrow-band telephone networks and congested gateway, data broadcasting provides an alternative means to Internet for browsing information. The Directors consider that data broadcasting is potentially a strong competitor of the Internet in the PRC. Please refer to the section headed "Data broadcasting vs Internet as a medium for dissemination of digital data in the PRC" under "Industry overview" section and the section headed "Description of business" under "Business" section for detailed features of data broadcasting.

Data broadcasting adopts point-to-multi-point transmission to enable large chunks of data to be transmitted swiftly and simultaneously through TV networks to a large number of subscribers. Data broadcasting overcomes the problem of connecting to and transmitting data over the Internet in the PRC. Furthermore, due to the point-to-multi-point transmission characteristic of data broadcasting, the marginal cost for TV network operators to transmit data to each additional subscriber is virtually zero. As data broadcasting transmits data through existing TV networks and no service fees have to be paid by TV network operators to telecommunication network operators as in the case of Internet access providers, in the long run, the cost of subscribing to data broadcasting services is much lower than that of subscribing to Internet services in the PRC.

SUMMARY

The huge number of existing cable TV subscribers also demonstrates the potential of data broadcasting in the PRC. According to China Computerworld, a press in the information technology services industry in the PRC, to date, cable TV networks have a coverage in terms of geographical area of approximately 50% in the PRC and approximately 70% in the major cities and the total number of cable TV subscribers, who are potential subscribers to data broadcasting services, amounted to about 80 million. According to the China Statistical Yearbook 1999, the number of cable TV network operators in the PRC at county level amounted to 1,403 in 1998. Cable TV has become the most pervasive communication tool with the highest household coverage in the PRC.

The Directors believe that the factors contributing to the future development of the Group include the following:

- the existing over 2000 administrative counties in the PRC having access to cable TV networks and the approximately 80 million cable TV subscribers in the PRC suggest enormous potential of the Group's data broadcasting business;
- the Group's strategic alliance with 103 TV network operators in the PRC facilitates the expansion of the Group's business and enlarges the Group's earning base;
- the Group's data broadcasting technology provides a cost effective and efficient means of transmitting information;
- co-operation with cable TV networks saves substantial investment and time cost for data broadcasting infrastructure construction;
- the open architecture adopted by the Group for its transmission and reception modules enhances compatibility of its products with other suppliers' products so as to facilitate market penetration thereby setting the industry standards in the PRC;
- the Group's emphasis on research and development of data broadcasting technologies and the contents for data broadcasting;
- the Group's experienced and entrepreneurial management in the information technology service industry in the PRC; and
- its good reputation and established brand awareness in the data broadcasting industry in the PRC.

SUMMARY

TRADING RECORD

The following table summarises the Group's pro forma combined turnover and results for the two years ended 31st December, 1998 and the six months ended 30th June, 1999 prepared on the assumption that the current structure of the Group had been in place throughout the period under review. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

	Year ended		Six months
	31st December,		ended
	1997	1998	30th June,
	\$'000	\$'000	1999
			\$'000
Reception modules (<i>Note 1</i>)	190	5,841	3,636
Software (<i>Note 2</i>)	103	1,053	439
Income derived from data broadcasting service subscription	—	399	243
Others (<i>Note 3</i>)	—	1	6
	<u>293</u>	<u>7,294</u>	<u>4,324</u>
Turnover (<i>Note 4</i>)	293	7,294	4,324
Cost of sales	<u>(222)</u>	<u>(5,770)</u>	<u>(3,943)</u>
Gross profit	71	1,524	381
Selling expenses	(12)	(315)	(262)
General and administrative expenses	<u>(186)</u>	<u>(480)</u>	<u>(305)</u>
Profit/(loss) before taxation	(127)	729	(186)
Taxation	<u>—</u>	<u>—</u>	<u>—</u>
Profit/(loss) before minority interests	(127)	729	(186)
Minority interests	<u>38</u>	<u>(219)</u>	<u>56</u>
Net profit/(loss) attributable to shareholders	<u><u>(89)</u></u>	<u><u>510</u></u>	<u><u>(130)</u></u>

Notes:

- (1) Reception modules include PC plug-in boards.
- (2) Software includes distance education access software and stock analysis software.
- (3) Others include system integration, technical support and consultancy service.
- (4) Turnover represents the invoiced value of goods sold and services rendered, net of value-added tax, business tax and government surcharges, and after allowance for goods returned and trade discounts.

During the Track Record Period, the Group's turnover grew in accordance with its increasing sales activities. For the two years ended 31st December, 1998 and the six months ended 30th June, 1999, the Group had recorded combined turnovers of approximately \$293,000, \$7,294,000 and \$4,324,000, respectively. The Group's net profit margin/(loss percentage) was about (30.4%), 7.0% and (3.0%) respectively, for the two years ended 31st December, 1998 and the six months ended 30th June, 1999.

SUMMARY

Year ended 31st December, 1997

For the year ended 31st December, 1997, the Group recorded a turnover of about \$293,000 which mainly derived from the sale of PC plug-in boards and stock analysis software. During the first half of the year, the Group's resources were mainly devoted to the research and development of data broadcasting technology and the relevant products and services. The Group started to market its PC plug-in boards and stock analysis software in December 1997 and the sales were yet to pick up. The gross profit amounted to about \$71,000, representing a gross margin of about 24.2%. The relatively high gross margin resulted from the high-margin pricing policy adopted by the Group at the time the PC plug-in boards were first marketed, which was partially offset by the stock analysis software that was sold with a low margin to complement the sale of PC plug-in boards. During the year, the Group was yet to attain economies of scale and recorded a loss before taxation and net loss attributable to Shareholders of about \$127,000 and \$89,000, respectively.

Year ended 31st December, 1998

For the year ended 31st December, 1998, the Group recorded a turnover of about \$7,294,000, representing an increase of about 24 times over that of the previous financial year. The sharp increase in turnover was mainly due to the sharp increase in sales of PC plug-in boards and the accompanied stock analysis software as a result of Group's increasing sales activities and marketing efforts through strategic alliance with 41 TV network operators which enhanced the sales of the Group's reception modules. In addition, the Group started to disseminate real-time stock quotation information and supply distance education contents to Tianjin Cable TV Network with which the Group shared the relevant income from data broadcasting service subscription.

The gross profit increased by about 21 times to about \$1,524,000, representing a gross margin of about 20.9%, a slight decrease from the 24.2% gross margin of the previous year. The decrease in gross margin was mainly due to (i) the general reduction of the price of the Group's PC plug-in boards (average unit price of PC plug-in board decreased by about 22.6% over that of the previous years) as a result of the Group's pricing and marketing strategies to boost sales of PC plug-in boards and the sales volume increased by about 40 times; (ii) the increase in the sales contribution of certain major distributors to which the Group offered bulk purchase discounts and (iii) the considerable losses from the sale of distance education access software and the provision of relevant contents which were in the development stages involving considerable initial investment cost and the short operation period of less than 4 months, offset by the provision of higher-gross-margin stock quotation information, and the increase in the gross margin of the sales of stock analysis software as a result of general decrease in purchase cost and bulk purchase discounts offered to the Group.

During the year, the operating cost increased as a result of the increase in the number of employees and the commencement of marketing activities such as liaison with TV networks operators and advertisement in newspapers, magazines and on TVs. Despite the increase in operating cost, the Group recorded a profit before taxation of about \$729,000 as a result of the sharp increase in gross profit.

During the year, the Group recorded a profit attributable to Shareholders of about \$510,000, representing a net margin of about 7.0%.

SUMMARY

Six months ended 30th June, 1999

For the six months ended 30th June, 1999, the Group recorded a turnover of approximately \$4,324,000. The gross profit and the loss before taxation amounted to about \$381,000 and \$186,000, respectively. The gross margin decreased to about 8.8%. The decrease in gross margin was mainly due to (i) the Group's marketing strategies to offer free distance education access software to purchasers of PC plug-in boards in Tianjin; (ii) the provision of distance education contents which were still at the development stage thus involving considerable initial investment cost; (iii) the decrease in gross margin of sale of stock analysis software as a result of the Group's marketing scheme to boost the sales of PC plug-in boards by selling PC plug-in boards together with stock analysis software at a discount and virtually at cost, partially offset by the increase in gross margin of sale of PC plug-in boards as a result of economies of scale and the decrease in the average discount offered by the Group to the distributors as the number of the distributors increased as compared to that of the previous financial year. The gross margin for provision of real-time stock quotation information remained stable. During the period, the Group recorded a net loss attributable to the Shareholders of about \$130,000 as a result of the lower gross margin and the increasing operating cost to finance the Group's expansion.

Performance of the Group during the six months ended 31st December, 1999

During the six months period ended 31st December, 1999, the Group's sales activities increased significantly compared with the six months ended 30th June, 1999. The sales volumes (quantity sold) of the Group's PC plug-in boards and software increased by over 90% and 60%, respectively from the corresponding sales volumes during the first half of 1999. The increase was mainly attributable to the expanding sales network and the increase in the number of strategically allied TV network operators. During the second half of 1999, the number of new subscribers for the Group's data broadcasting services increased by over 3 times from those of the first half of 1999, which was mainly attributable to promotional activities conducted during this period and the increasing attractiveness of the Group's data broadcasting service contents. Overall gross profit margin of the Group improved but was offset by the increase in the Group's other operating expenses. Accordingly, the Directors do not expect that the Group would record a substantial net profit for the whole year ended 31st December, 1999.

Please also refer to the section headed "Statement of active business pursuits" under the "Business" section of this prospectus for the Group's performance during the period from 1st November, 1997 to the Latest Practicable Date.

The description of the Group's performance during the six months ended 31st December, 1999 is based on the latest information available which has not been audited.

Waivers in respect of Rules 7.03(1), 11.10 and 11.11 of the GEM Listing Rules and paragraph 31 of the Third Schedule to the Companies Ordinance

The Directors are aware of the following requirements:

- (i) Rules 7.03(1) and 11.10 of the GEM Listing Rules which requires that the accountants' report included in this prospectus must include the combined results of the Group in respect of each of the two financial years immediately preceding the issue of this prospectus and according to Rule 11.11 of the GEM Listing Rules, the latest financial period of the Company reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The**

SUMMARY

accountants' report contained in this prospectus has been prepared to include combined results of the Group for each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999 only.

- (ii) Paragraph 31 of the Third Schedule to the Companies Ordinance which requires this prospectus to include a report by the auditors of the Company with respect to the profits and losses of the Group for each of the two years ended 31st December, 1999 and the assets and liabilities of the Group as at 31st December, 1999.

The Company has applied to the Stock Exchange for waivers from compliance with the requirements referred to in (i) and has been granted by the Securities and Futures Commission a certificate of exemption from compliance with the requirement referred to in (ii). The Directors confirmed that they have performed sufficient due diligence on the Group to ensure that, save as disclosed herein, up to the date of the issue of this prospectus, there has been no material adverse change in the financial position of the Group since 30th June, 1999, and there is no event which would materially affect the information shown in the accountants' report of the Group as set out in Appendix I to this prospectus.

FUTURE PLANS AND PROSPECTS

Mission

It is the Group's mission to establish itself as a leader in the data broadcasting services industry in the PRC and make its data broadcasting technology the industry standards in the PRC.

Business Objectives

The Directors believe that there is a huge demand for information in the PRC which the PRC's Internet market has not yet been able to satisfy. Considering the prevailing mismatch between the supply of and demand for information in the PRC, the Group devotes itself to the development of data broadcasting technology.

The Group's business objectives are as follows:

Establishing strategic alliance with TV network operators

The Group will continue to establish strategic alliance with TV network operators to secure demand of the networks and the subscribers of these networks for its data broadcasting products and services and to explore additional source of revenue from the sharing of income derived from data broadcasting service subscription with these TV network operators and advertising. It is the Group's strategy to broaden the user base at full speed through establishing strategic alliance with TV network operators so as to enlarge the Group's recurring income source in the future.

Providing popular contents for data broadcasting to attract subscribers

The Group will produce, gather or acquire selected contents including distance education contents, financial information, electronic newspapers and magazines, music, shareware and other contents from the Internet to attract subscribers to data broadcasting services. In addition to the huge market for financial information, the Directors believe that there is also a great potential demand from students in the PRC for quality multimedia distance education contents. According

SUMMARY

to the China Statistical Yearbook 1999, approximately 216,354,000 students enrolled in primary and secondary schools and regular institutions of higher education in the PRC in 1998. The Group plans to source education materials from reputable institutions or teachers in the PRC and to develop more multimedia distance education contents for primary and secondary education for subscription within the next 36 months. The Group also intends to develop other multimedia distance education contents for further education and professional examinations.

Commitment to investing in research and development

The Group will continue to focus on investing in the development of its high-calibre research and development team. The Group's dedicated management and research and development professionals will devote themselves to keeping abreast of the market trends and technological evolution and at the same time developing information technologies and related products and services.

Marketing different models of reception modules

The Group will make continuous efforts to market its FC data broadcasting PC plug-in boards. The Group intends to market its financial TV set top boxes and multimedia TV set top boxes in late January 2000 and February 2000, respectively. Sale of TV set top boxes are expected to be one of the major income sources of the Group in the foreseeable future. The Directors believe that cable TV subscribers in the PRC will provide a huge customer base for its data broadcasting business.

Enhancing sales and marketing efforts

The Group will also make continuous efforts to expand its sales and marketing network by organising promotional activities and advertising its products and services.

Exploring additional commercial opportunities

The Group will devote its efforts to the exploration of additional commercial opportunities in information service technologies such as interactive broad-band data broadcasting to maximise the Group's returns.

For details of the Group's business objectives for the 36 months ending 31st December, 2002, please refer to the section headed "Statement of business objectives" under "Future plans and prospects" in this prospectus.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Group intends to raise funds by way of Placing for the expansion of the Group's data broadcasting business, in particular, the expansion of its sales and marketing networks and capabilities, the on-going research and development of information service technology and the mass production of reception modules so as to capitalise on the fast growing market in the PRC.

SUMMARY

The net proceeds of the Placing, based on the minimum amount of \$35.4 million being raised under the Placing and after deducting related expenses, assuming the Over-allotment Option is not exercised, are estimated to amount to approximately \$27.1 million. It is intended that the net proceeds will be applied as follows:

- as to approximately \$2.5 million for the acquisition of computer software, computer hardware and other equipment including software tools, application software, workstations, servers and product testing equipment for ordinary production and operation of the Group;
- as to approximately \$3.0 million for market development, comprising marketing campaigns, advertising and development of distributorship, in the light of the Group's plans to participate in not less than 7 trade shows and engage not less than 100 distributors by the year ended 31st December, 2001;
- as to approximately \$4.5 million for research and development of advanced models of financial and multimedia TV set top boxes and enhanced versions of multimedia broadcasting access software;
- as to approximately \$8.0 million as working capital for the provision of FC data broadcasting transmission modules to approximately 60 TV network operators by the end of 2000;
- as to approximately \$3.0 million as working capital for the mass production of the financial TV set top boxes;
- as to approximately \$3.0 million as working capital for the mass production of the multimedia TV set top boxes;
- as to approximately \$2.5 million as working capital for the sourcing of contents for data broadcasting which includes primary and secondary education materials from reputable teachers in the PRC; and
- as to the balance of approximately \$0.6 million as general working capital of the Group for funding the general expenditure of the Group's Hong Kong liaison office.

For details of the Group's intended use of proceeds of the Placing, please refer to the section headed "Reasons for the Placing and use of proceeds" under "Future plans and prospects" in this prospectus.

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short-term interest-bearing deposits with licensed banks in Hong Kong and/or the PRC.

If the Over-allotment Option is exercised in full, the Company will receive additional net proceeds of approximately \$5.1 million (based on the minimum Placing Price of \$1.18), after deducting commission and expenses attributable to the exercise of the Over-allotment Option. Should the net proceeds of the Placing exceed \$27.1 million, it is the present intention of the Directors that the relevant surplus be used as working capital for production of transmission modules for data broadcasting so as to expedite its expansion of strategic alliance with TV network operators and general working capital for the Group's Hong Kong liaison office.

It is the present intention of the Directors that the Group's business objectives for the year ending 31st December, 2002 will be financed by the Group's internal resources and/or bank financing.

SUMMARY

PLACING STATISTICS

No. of Placing Shares ⁽¹⁾	30,000,000 Shares	
No. of Shares after the Placing ⁽²⁾	75,000,000 Shares	
	Maximum Placing Price	Minimum Placing Price
Placing Price	\$1.30 per Share	\$1.18 per Share
Market capitalisation at the Placing Price ⁽³⁾	\$97.5 million	\$88.5 million
Adjusted net tangible asset value per Share based on the minimum Placing Price ⁽⁴⁾		38 cents

Notes:

- (1) This represents the number of Shares initially offered under the Placing without taking into account any Shares which may fall to be issued upon the exercise of the Over-allotment Option.
- (2) This represents the number of Shares expected to be in issue immediately following the completion of the Placing without taking into account any Shares which may fall to be issued upon the exercise of the Over-allotment Option or the exercise of options granted under the Share Option Scheme or of any Shares which may fall to be issued or repurchased by the Company pursuant to the mandates referred to in Appendix IV to this prospectus.
- (3) The market capitalisation is calculated on the basis of 75,000,000 Shares as calculated in (2) above.
- (4) The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to under the section headed “Adjusted net tangible assets” in the section of this prospectus headed “Financial information” and 75,000,000 Shares as calculated in (2) above. If the Over-allotment Option is exercised in full, the adjusted net tangible asset value of the Group and the adjusted net tangible asset value per Share would be approximately \$33.6 million and 42 cents respectively, based on the minimum Placing Price of \$1.18 per Share.

RISK FACTORS

The Directors consider that the business of the Group is subject to a number of risk factors, which can be summarised as follows:

Risks relating to GEM on page 19

- Characteristics of GEM

Risks relating to the Group on pages 19 to 24

- Dependence on TV network operators and other distributors
- Competition
- Production of contents for data broadcasting
- Prohibition on certain contents for TV broadcasting
- Drop in price of reception modules

SUMMARY

- Sale of TV set top boxes
- Purchases and supplies for reception modules
- Patents and proprietary rights
- Potential product liability
- Relationship with Genius
- Dividend policy
- Year 2000 issue
- Business objectives and future performance

Risks relating to the industry on pages 24 to 25

- Technological change and evolving industry standards
- Market acceptance and expectation in the continued growth in demand
- Shortage of competent personnel

Risks relating to the PRC on pages 25 to 28

- Political and economic considerations
- Currency conversion in the PRC
- Exchange rate of RMB
- Legal and other regulatory considerations
- WTO
- Taxation

Other risks on pages 28 to 29

- Dilution
- Active trading market and fluctuation in trading price for the Shares
- Minimum subscription

SUMMARY

MINIMUM SUBSCRIPTION

The Placing is not underwritten and is conditional upon, among other things, a minimum amount of \$35.4 million being raised under the Placing and the relevant consideration being received before the commencement of dealings in the Shares on GEM. The Placing will not proceed if this condition is not fulfilled on or before 21st January, 2000 or such later date as may be agreed by Oriental Patron and the Company (in case the Placing Price is not determined on or before 17th January, 2000), but in any event not later than 8th February, 2000.

For the purpose of Section 28 of the Companies Act, the minimum subscription which must be raised by the Placing in order to provide the sums required to be provided in respect of each of the following matters is as follows:

- (i) the purchase price of assets purchased or to be purchased which is to be defrayed in whole or in part out of the proceeds of the Placing — approximately \$2.5 million;
- (ii) the preliminary expenses payable by the Company in relation to the Placing, and commission payable to any person in consideration of his agreeing to subscribe for, or his procuring or agreeing to procure subscriptions for, any Share — approximately \$8.3 million;
- (iii) the repayment of monies borrowed by the Company in respect of any of the foregoing matters — Nil; and
- (iv) working capital — approximately \$17.1 million.

No amount is to be provided in respect of such matters otherwise than out of the proceeds of the Placing.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“associate”	has the same meaning as defined in the GEM Listing Rules
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of part of the share premium account of the Company referred to in the paragraph headed “Further information about the Company” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Companies Act”	the Companies Act 1981 of Bermuda
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	China Data Broadcasting Holdings Limited, an exempted company incorporated in Bermuda on 22nd September, 1999 with limited liability
“Director(s)”	the director(s) of the Company
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Genius”	Genius Co., Ltd. (天津天大天財股份有限公司), a company established in the PRC with limited liabilities, the class A shares of which are listed on the Shenzhen Stock Exchange
“Genius Group”	Genius and its subsidiaries
“Group”	the Company and its subsidiaries or any of them or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company, and in respect of the period before the establishment of Tiancai Network, the operating division of Genius which previously carried on the data broadcasting business now carried on by the Group
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Latest Practicable Date”	7th January, 2000, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information referred to in this prospectus
“Main Board”	the securities market operated by the Stock Exchange under the Rules Governing the Listing of Securities on the Stock Exchange

DEFINITIONS

“Management Shareholders”	Ultra Challenge, and Mr. Dong Jian Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong (all being executive Directors) and Mr. Tang Bin, Mr. Wang Guangxin, Mr. Zhang Renli, Mr. Li Jiancheng, Ms. Yue Shishuang, Mr. Li Yongchao, Mr. Sun Lianwen, Mr. Ji Songqiao and Ms. Cai Zhipei (all being employees of the Group)
“Manager”	Oriental Patron
“Oriental Patron”	Oriental Patron Asia Limited
“Over-allotment Option”	the option to be granted by the Company to the Sponsor pursuant to the Placing Agreement to require the Company to allot and issue up to an aggregate of 4,500,000 additional Shares at the Placing Price solely to cover over-allocation in the Placing, if any
“Pacific Top”	Pacific Top Holding Limited, a company incorporated in the BVI and a fellow subsidiary of Oriental Patron
“Placing”	the conditional placing of 30,000,000 Placing Shares (subject to adjustment) at the Placing Price on and subject to the terms and conditions described in this prospectus as further described in the section headed “Placing Structure and Expenses” in this prospectus
“Placing Agreement”	the placing agreement dated 14th January, 2000 made between, among others, the Company, Ultra Challenge and Oriental Patron relating to the Placing
“Placing Price”	not less than \$1.18 per Share and not more than \$1.30 per Share, to be determined on or before 17th January, 2000 or such later date as may be agreed by Oriental Patron and the Company, but in any event no later than 1st February, 2000
“Placing Shares”	the 30,000,000 new Shares being conditionally placed by Oriental Patron on behalf of the Company under the Placing, together, where relevant, with any additional Shares issued pursuant to the exercise of the Over-allotment Option
“PRC”	the People’s Republic of China, which, for the purposes of this prospectus, excludes Hong Kong, Macau and Taiwan
“Professor Kou”	Professor Kou Jisong, the chairman of the Company and the chairman of Genius
“Remuneration Shares”	the 2,025,000 Shares to be issued to Pacific Top as part consideration for the services provided and to be provided by Oriental Patron as referred to in the Placing Agreement
“Reorganisation”	the reorganisation of the group of companies now comprising the Group completed on 11th January, 2000, which is more particularly described in the section headed “Corporate reorganisation” in Appendix IV to this prospectus

DEFINITIONS

“RMB”	Renminbi, the lawful currency of the PRC
“SDI Ordinance”	Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Share(s)”	share(s) of \$0.10 each in the share capital of the Company
“Shareholders”	the shareholders of the Company
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 11th January, 2000, the principal terms of which are summarised in the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus
“Sponsor”	Oriental Patron
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tiancai Network”	Tianjin Tiancai Network Software Company Limited (天津天財網絡軟件有限公司), a Sino-foreign cooperative joint venture enterprise established in the PRC, owned as to 70% by Verified Solutions and as to 30% by Genius
“Track Record Period”	the period comprising the two years ended 31st December, 1998 and the six months ended 30th June, 1999
“TV network operators”	include TV broadcasters and operators of TV stations and networks in the PRC
“Ultra Challenge”	Ultra Challenge Limited, a company incorporated in the BVI with limited liability, the entire issued share capital of which is owned by HSBC International Trustee Limited on trust for the beneficiaries more particularly set out in the section headed “Substantial and Management Shareholders”, and which, on completion of the Placing and the Capitalisation Issue and assuming the Over-allotment Option is not exercised, will own approximately 57.3% of the enlarged issued share capital of the Company
“Verified Solutions”	Verified Solutions Group Limited, a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company
“WTO”	World Trade Organisation
“US\$”	United States dollars, the lawful currency of the United States of America
“\$” or “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“%”	per cent.

GLOSSARY OF TERMS

ORGANISATIONAL TERMS

“FTVIBNC”	Broadcasting Information Network Centre of SARFTV (國家廣播電影電視總局廣播影視信息網絡中心)
“LARFTV”	Administration of Radio, Film and Television under the local people’s government at or above the county level of the PRC
“MII”	Ministry of Information Industry of the PRC (信息產業部)
“CNNIC”	China Internet Network Information Centre (中國互聯網絡信息中心)
“SARFTV”	State Administration of Radio, Film and Television of the PRC (中國國家廣播電影電視總局)

TECHNICAL TERMS

“bps”	bits per second, a measure of how fast data is transmitted
“CCST”	an acronym for Chinese Character Standard Teletext
“e-commerce”	electronic commercial transactions effected using the Internet
“FC”	an acronym for Full Channel. FC data broadcasting utilises a full TV channel and the maximum rate of transmission amounts to approximately 5Mbps
“financial TV set top box”	a kind of data broadcasting reception modules designed exclusively for the reception of real-time stock quotation via TV
“HTML”	an acronym for HyperText Markup Language, the coding language used to create hypertext documents for use on the World Wide Web
“HTTP”	an acronym for HyperText Transfer Protocol, the protocol for moving hypertext files across the Internet
“hypertext”	words or phrases in a computer document that can be chosen by a reader and which provide short cuts to retrieving other computer documents
“ICP”	Internet content provider, a company that develops and provides content and information on the Internet
“Internet”	a combination of computer networks that use the same protocols and that are connected to each other by high-speed telephone circuits through which information providers can make information available for users or customers globally

GLOSSARY OF TERMS

“IP telephony”	Internet Protocol telephony is a general term for the technology that uses the Internet protocol’s packet-switched connections to exchange voice, fax and other forms of information that have traditionally been carried over the dedicated circuit-switched connections of the public switched telephone networks
“ISP”	Internet service provider, a company that provides subscribers with access to the Internet
“Kbps”	Kilobits per second, which is a measurement unit of speed for digital transmission and is equivalent to 1,024 bits per second
“Mbps”	Megabits per second, which is a measurement unit of speed for digital transmission and is equivalent to 1,024 Kbps
“multimedia TV set top box”	a kind of data broadcasting reception modules designed for reception of multimedia information via TV which encompasses the functions of a financial TV set top box
“modem”	a piece of equipment that connects a computer to a data transmission line (typically a telephone line)
“networking”	a technique for distributing data processing functions through communications facilities (the interconnection of two or more networks)
“PC”	a micro-computer for personal use
“protocol”	a formal description of message formats and the rules two or more machines must follow in order to exchange such messages
“server”	software that allows a computer to offer service to another computer. Other computers contact the server by means of matching client software. In addition, such term means the computer on which server software runs
“shareware”	computer software that is available free of charge on a trial basis
“software”	a system, utility or application programme expressed in a computer readable language
“systems integration”	a process to integrate different computers, devices and application software packages together to provide a solution
“Teletext”	a one-way system for transmission of text and graphics via wireless broadcasting or cable channels for display on TV. A decoder or a microchip resident in TV is needed
“TV”	television

GLOSSARY OF TERMS

“Utility model”	refers to the practical and new technical proposals on the shape or structure, or the combination thereof, the products as specified in the patent laws of PRC and its detailed rules and regulations for implementation
“VBI”	an acronym for Vertical Blanking Interval. VBI data broadcasting utilises the vertical blanking interval of the signals in a TV channel, which carries no information and the maximum rate of transmission amounts to approximately 256 Kbps
“video-conferencing”	the simultaneous, interactive exchange of both video and audio signals during a transmission among multiple locations
“video-on-demand”	a video-on-demand system which delivers over a network full-motion video signals to hundreds of viewers simultaneously, allowing each viewer full control over the playback of video signals
“World Wide Web” or “Web”	a worldwide network of servers that supports hypertext connections using HTML and HTTP
“Year 2000 problem”	also known as the millennium bug which is a problem in certain computer systems which use only two digits to represent the year that these systems may not function properly in the year 2000 onwards as they cannot distinguish between, for example, 1st January, 1900 and 1st January, 2000

RISK FACTORS

This prospectus contains forward-looking statements that include, among other things, statements of business objectives concerning the Company's data broadcasting business, expectations as to funding its capital requirements, anticipated customer demand, statements as to the revenue and profitability of the Company and other statements of expectations, belief, future plans and strategies, anticipated developments and others matters that are not historical facts. The Directors generally identify these forward-looking statements by using the words "may", "will", "expect", "continue", "believe" or similar expressions. The Directors caution potential investors that there are risks and uncertainties associated with the Company and actual events or results may differ materially from those expressed or implied by the statements.

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.

RISK RELATING TO GEM

Characteristics of GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, a company may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks attached to the emerging nature of many companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more likely to meet the expectations of professional and other sophisticated investors.

Prospective investors should be aware that the minimum percentage of any class of GEM-listed equity securities of a company required, at all times, to be held by the public, is lower than the equivalent provision applicable to equity securities listed on the Main Board. Accordingly, securities traded on GEM may be susceptible to greater market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

It is emphasised that no application is being or is proposed to be made for admission of the securities of the Company to list on the Main Board at the present time.

RISK RELATING TO THE GROUP

Dependence on TV network operators and other distributors

The Group relies on TV network operators in the PRC to provide data broadcasting services via local TV networks. The Group also depends on strategically allied TV network operators and other distributors to assist it in promoting and creating demand for the Group's products and services. Sales of the Group's data broadcasting reception hardware and software and income derived from data broadcasting service subscription are dependent on a number of factors such as the number of TV network operators providing data broadcasting services, the number of data broadcasting service subscribers and the sharing ratio between the Group and the TV network operators in respect of income derived from data broadcasting service subscription. There can be no assurance that the number of local TV network operators providing data broadcasting services, the number of other

RISK FACTORS

distributors who promote the Group's products and services, the number of data broadcasting service subscribers, the number of purchasers of the Group's data broadcasting reception hardware and software and the income derived from data broadcasting service subscription will continue to increase or will not decrease. Nor can assurance be given on the number of local TV network operators strategically allied with the Group in the future to share income from data broadcasting service subscription or that the Group can bargain for a sharing ratio in its favour.

Competition

The Group is aware of at least two major competitors which engage in the business of broadcasting data via TV networks in the PRC and compete directly with the Group's existing VBI and FC data broadcasting business. The Company's performance and potential profitability may also be adversely affected by competition from other companies engaging in Internet and electronic information access, processing and distribution businesses, in particular, firms with better financial and technical resources and more experience in data and information broadcasting services than the Group. In addition, with the rapid growth of the Internet and development of broad-band multimedia networks, other companies may also provide access to or deliver similar products or services via online facilities. More competitors engaging in the provision of hardware and contents for data broadcasting, either local or overseas, may enter the market as demand for such products and services increases. Moreover, the PRC's entry to the WTO may bring along other foreign competitors as it is expected that customs duties on imported goods (as in the context of the Group, data broadcasting hardware or parts and components for its products) will be substantially reduced or eliminated. There can be no assurance that the Group will be able to provide the technical enhancements and new products and services to maintain or to sustain its competitive position in the data broadcasting industry.

Production of contents for data broadcasting

The Directors are of the view that a key factor affecting subscription for data broadcasting services is the contents broadcast. The Group currently provides multimedia distance education contents, electronic newspapers and magazines, real-time stock quotation, music, shareware and other contents from Internet to TV network operators. Although the Group incorporates a security control device in its reception modules and adopts the relevant application software to prevent unauthorised reception or duplication of data broadcasting contents, the Directors cannot completely rule out the possibility of such occurrence. Should there be unauthorised reception or duplication of the Group's data broadcasting contents, the Group's share of income derived from data broadcasting services subscription may be adversely affected.

During the year ended 31st December, 1998 and the six months ended 30th June, 1999, the Group incurred substantial initial costs for developing distance education contents and the relevant software including the cost for planning, sourcing and producing data broadcasting contents. Such expenditure eroded the gross and operating margins and attributed to the loss for the six months ended 30th June, 1999. The Group's gross profit margin decreased from about 24.2% to about 8.8% from the year ended 31st December, 1997 to the six months ended 30th June, 1999. The Group plans to produce multimedia distance education contents for more disciplines and professional examinations and to gather or acquire contents from various content providers. Although the Directors believe that there is a huge demand for distance education contents and other contents in the PRC and that the provision of contents will increase its share of income derived from data broadcasting services and contribute to the future profitability of the Group, there is no assurance that there will be a huge demand for the Group's contents as the Directors expect. There can be no assurance that the Group can produce, gather or acquire popular contents for its data broadcasting services.

RISK FACTORS

Prohibition on certain contents for TV broadcasting

TV broadcasters in the PRC are prohibited from producing and broadcasting certain types of contents under the Regulations on Radio and Television Administration promulgated in August 1997. TV broadcasters are responsible for examining TV programmes prior to broadcast and conducting re-examination of the programmes prior to re-broadcast. Details of such prohibited programmes are set out in the paragraph headed “TV broadcasting in the PRC” in the section headed “Industry Overview” in this prospectus. Should the TV broadcasters broadcast prohibited programmes, they may be subject to penalties stipulated in the Regulations on Radio and Television Administration, including but not limited to a fine or revocation of their licences. The TV broadcasters who broadcast prohibited programmes instead of the Group would have to bear the legal consequence. Should the TV broadcasters refuse to adopt and broadcast the contents for data broadcasting sourced and produced by the Group, the Group’s result may be adversely affected. The Group’s cooperative agreements with various TV network operators do not provide for any indemnity to TV network operators for consequences resulting from the breach of the Regulations on Radio and Television Administration.

Drop in price of reception modules

The Group constantly reviewed and if necessary, revised its pricing and marketing strategies in order to improve price competitiveness and the market share of the Group’s reception modules. Such strategies include the downward adjustment of the selling prices of its products. For the two years ended 31st December, 1998 and the six months ended 30th June, 1999, the average selling price of the Group’s reception modules, namely the PC plug-in boards, dropped by 27.9% from about \$398 per unit to about \$287 per unit. So far as known to the Directors, some PC plug-in boards of other companies are fungible with the Group’s PC plug-in boards products. Since the sales of reception modules is one of the major sources of the Group’s income, the turnover and profitability of the Group may be adversely affected should the average selling price of the Group’s reception modules continue to fall as a result of keener market competition and should the Group fail to reduce the relevant production cost.

Sale of TV set top boxes

The Group intends to market its financial TV set top boxes and multimedia TV set top boxes in late January 2000 and February 2000 respectively. Accordingly, the Group’s TV set top boxes have virtually no history upon which market acceptance can be evaluated. While the Directors expect that the sales of TV set top boxes will become one of the Group’s major sources of income, there is no assurance that such expectation will materialise.

Purchases and supplies for reception modules

Before the establishment of Tiancai Network in June 1999, the Group’s data broadcasting business division did not have any rights under PRC law to import parts and components required for the production of the Group’s reception modules and all such parts and components had to be sourced from local distributors in the PRC. The Group has experienced some difficulties in sourcing hardware components for the production of its PC plug-in boards before the establishment of Tiancai Network which was mainly attributable to inadequate supplies from local distributors.

Although the Group can source hardware components from overseas suppliers directly following the establishment of Tiancai Network, there is no assurance that the Group can source the required parts and components from both local and overseas suppliers, and if it can, in a timely manner.

RISK FACTORS

Patents and proprietary rights

The Group relies upon patents, copyrights, trademarks and trade secret laws and will also rely upon confidentiality and non-disclosure agreements and other measures to establish and protect its proprietary rights to its technologies, products and services. Such protection may not be able to preclude competitors from infringing the Group's intellectual property rights in its technologies, products and services. There can also be no assurance that other companies engaging in the data broadcasting industry will not obtain patents similar to or challenge the patents obtained by the Group. Since patent applications for utility models and designs in PRC are maintained in secrecy until the patents are granted and publication of inventions tends to lag behind actual discoveries, there can be no assurance that the Group's technology, which evolved from CCST, will not infringe patents or proprietary rights of other companies engaging in the data broadcasting industry nor that the Group can obtain patents or licences in respect of its proprietary rights. Any litigation to determine the validity of any third parties' claims could result in significant expenses to the Group, adversely affect operating results of the Group and divert the efforts of the Group's technical and management personnel. Although the Group is not aware of any pending or threatened litigation relating to such matters as of the Latest Practicable Date, in the event that any such litigation is resolved against the Group, the Group would have to employ significant resources in developing new or non-infringing technology or obtaining licences to the disputed technology. There can be no assurance that the Group would succeed in such development.

In developing the Group's technologies, products and services, the Group has used various technologies or know-how which it believes are in the public domain, licensed to the Group or it otherwise has the right to use. There can be no assurance, however, that third parties will not institute patent or other intellectual property infringement claims against the Group with respect to such technologies, products and services.

To the best knowledge of the Directors, the Group has not infringed any other registered patent in the PRC.

Potential product liability

The production and sale of any product in the PRC must abide by the Law of the PRC on Product Quality which came into force in September 1993. A seller shall be responsible for the repair, replacement or return of the product if the product does not carry the functions it should have without any prior indication being given or does not conform to the product standard or the quality indicated on the product or the sample. If a substandard or defective product causes physical injury to other person or damage to other property, the victim may claim compensation from either the seller or the producer. If the defect is attributable to the producer or the supplier, the seller shall have the right to recover his losses from the producer or the supplier. The producer however will not be liable if the product has not been put into circulation, the defect does not exist when the product is put into circulation or the defect is not detectable in the light of the scientific or technological level at the time the product is put into circulation.

The Group maintains a product liability insurance for an annual aggregate amount of up to RMB2,000,000 (approximately \$1,869,159) to protect the Group against claims resulting from defective products since September 1999. A premium of RMB4,000 (approximately \$3,738) per annum is paid on the product liability insurance cover. As at the Latest Practicable Date, the Group has not received any claim for product liability. Therefore, the Directors are currently of the view that the present product liability insurance coverage maintained by the Group is adequate. The aggregate value of defective goods returned for repair during the two years ended 31st December, 1998 and the six

RISK FACTORS

months ended 30th June, 1999 amounted to less than 0.1% of the turnover of the Group for each of the respective periods. Although the Group has not received any product liability claim as of the Latest Practicable Date, in the event of any such claim, the Group would have to incur significant expenses in defending the claim and/or paying compensation. There can be no assurance that the Group shall be able to recover such expenses from the relevant manufacturer.

There can be no assurance that the products and services provided by the Group will not cause any damage or loss to the properties or the businesses of the users or the customers.

Relationship with Genius

The Group's PC plug-in boards have been marketed under the “天財” trademark of Genius in the past. Under a licence agreement dated 8th January, 2000 between Genius and Tiancai Network, Genius has granted to Tiancai Network the rights to use the “天財” trademark free of charge for so long as Genius holds 20% or more interest in Tiancai Network. For confidentiality reasons, the Group will, pursuant to a processing agreement dated 8th January, 2000 between Genius and the Group, contract only with Genius for the processing and assembly of the Group's TV set top boxes.

Genius has, pursuant to a letter of undertaking, undertaken to Tiancai Network that so far as Genius' interest in Tiancai Network remains not less than 20%, Genius and its subsidiaries will not engage or participate at any time or in any place, either directly or indirectly, in businesses that are the same or similar in nature to the businesses of the Group. Genius has not given any undertaking not to dispose of its interest in Tiancai Network.

Should Genius reduce its interest in Tiancai Network to less than 20% or there be any change in the relationship between the Group and Genius, the Group's operation may be impaired and the Group's profitability may in turn be adversely affected.

Dividend policy

As the data broadcasting business of the Group is still in the growing stage, the Company currently does not anticipate paying dividends in the foreseeable future.

Year 2000 issue

The year 2000 problem arises primarily because computer data storage had been expensive in the past. Some system engineers tended to use only two digits to represent year in databases to save storage space, resulting in incorrect calculations or system failure in any computer or automated systems with time-sensitive functions for year 2000 and beyond. Though the Group's products are designed and tested for year 2000 compliant, there is no assurance that all future products produced or distributed by the Group will be year 2000 compliant and the Group will be immune from non-compliance claims. The Group has not taken out any insurance policy against such claims.

In addition, if the Group's suppliers, manufacturing and processing agents, authorised distributors, or strategically allied TV network operators fail in tackling the year 2000 problem, the operation and the profitability of the Group may be adversely affected.

RISK FACTORS

Business objectives and future performance

The Group started to commercialise its data broadcasting technology in August 1997. Accordingly, the Group only has a limited operating history upon which the evaluation of its prospects can be made. The business objectives as set out in the sub-sections headed “Business objectives” and “Statement of business objectives” under the section headed “Future plans and prospects” in this prospectus represent the targets, objectives and future plans of the Group. The Directors set those targets, objectives and plans in the light of the existing plans of the Group and on the assumptions more particularly described in the sub-section headed “Statement of business objectives” under “Future plans and prospects” section in this prospectus. Such targets, objectives and plans are by their nature subject to uncertainty. The Group’s actual course of business may vary from the business objectives set out in this prospectus. There can be no assurance that the plans of the Group will materialise in accordance with the expected timeframe or the objectives of the Group will be fully accomplished if at all.

For the two years ended 31st December, 1998, the Group recorded (loss)/profit before taxation of about \$(127,000) and \$729,000 respectively. A major part of the Group’s income and profits is derived from the sale of reception modules for which the Group has not secured any long-term contract even though the Directors has set certain relevant objectives for the 36 months ending 31st December, 2002. For this reason, the Directors do not have a reliable basis to prepare a profit forecast to the level of accuracy and reasonableness required for the inclusion of the same in this prospectus. Accordingly, no profit forecast has been included in this prospectus. There can be no assurance that profit will be made or whether loss will be suffered by the Group in the future.

RISK RELATING TO THE INDUSTRY

Technological change and evolving industry standards

The information technology industry is a new and fast developing industry and is characterised by rapidly changing technology, evolving industry standards, emerging competition and frequent introductions of new products and services. The prospects for the data broadcasting industry must be weighed against the substantial inherent risks, expenses and difficulties of the industry. These risks include competition from other companies engaging in the data broadcasting industry or from the Internet or other information technology services industries, changing technology and evolving industry standards including any broad-band multimedia networks which may be launched in the PRC, changing user demand for data broadcasting services and general economic conditions in the PRC. If companies in the information technology services industry do not keep up with continuous technological changes, they may find it difficult to compete with others who are able to keep abreast of the changes. There is no assurance that the Group will be able to identify market and technological trends in the future.

The Company believes that its competitiveness is also dependent upon the continued compatibility of its products with architectures offered by other companies. SARFTV has appointed the Broadcasting Technology Institute (廣播科學研究院) to set the industry standards for VBI data broadcasting in the PRC, details of which have been set out in the sub-section headed “Development of data broadcasting in the PRC” in the “Industry Overview” section of the prospectus. As at the Latest Practicable Date, the Directors are not aware of any industry standard which has been set for data broadcasting in the PRC. Although the Group intends and strives to set the industry standards for data broadcasting in the PRC, the Company can give no assurance that any international, local or industry standards will be established or that, if they are established, the Group will be able to conform to these new standards in a timely fashion or maintain a competitive position in the market.

RISK FACTORS

The introduction of new products or services by the Group or its competitors and any change in industry standards could cause customers to defer or cancel purchases of existing products or services, which could have a material adverse effect on the Group's business, financial condition and results of operation. The failure of the Group to anticipate the prevailing standards or the lack of common standards in the data broadcasting industry, could have a material adverse effect on the Group's business and results of operation. In addition, services or technologies developed by others could render the Group's services or technology uncompetitive or obsolete. The Group is vulnerable to significant loss due to misinterpretation of the market condition.

Market acceptance and expectation in the continued growth in demand

Data broadcasting is a new medium in the PRC. Accordingly, there can be no assurance as to the level of market acceptance for data broadcasting services in the PRC. The Directors consider that there are various unfavourable factors influencing the industry. In some regions, TV networks are monopolised or controlled by the major local TV network operators. Furthermore, some TV network operators are less receptive to new technologies, such as data broadcasting. The Group may encounter difficulties in the negotiation with such TV network operators in relation to the allocation of TV channel resources. In addition, like all other information technology services businesses, the data broadcasting business is characterised by rapidly changing technology, evolving industry standards and frequent introduction of new products and services. If the market acceptance or growth in demand for data broadcasting services does not match with the expectation of the Directors as detailed in the section headed "Future plans and prospects" in this prospectus, the performance and the profitability of the Group may be adversely affected.

Shortage of competent personnel

One of the factors contributing to the Group's success is its ability to retain and recruit competent personnel. There is an overall shortage of competent personnel in various areas in the information technology services industry including the data broadcasting industry in the PRC. There is a risk that the continued shortage of competent personnel and the lack of professional intelligence in the information technology services industry may hinder the development of the business of the Group in the future.

RISK RELATING TO THE PRC

As all of the Group's business is conducted in the PRC, the Group's profitability, financial position and prospects may be affected by the economic, political and legal developments in the PRC.

Political and economic considerations

The PRC economy has traditionally been a planned economy according to a series of annual and five-year national development plans adopted by the PRC government. Although the PRC government has, since 1978, adopted an open-door policy, its policies relating to the PRC's economy, such as currency conversion, taxation, import restrictions and the trading of imported goods, may have a significant impact on the overall economy. Companies engaged in related businesses in the PRC may also be affected. Such reforms have resulted in significant economic growth and social progress and have also led to an increasing demand for information technology. However, many of the reforms are unprecedented or experimental and are expected to be refined and improved. Other political, economic and social factors may also lead to further re-adjustment of the reform measures. This refinement and re-adjustment process may not always have a favourable impact on the Group's operations. If there is any change in the PRC political, economic and social conditions, any change in the policy of the PRC

RISK FACTORS

government such as changes in the law and regulations and their interpretation, the introduction of measures to control inflation and changes in the rate or method of taxation or tightening of bank's credit rates, the Group's business could be adversely affected.

Currency conversion in the PRC

RMB is not at present freely convertible. Prior to 1st January, 1994, all foreign exchange transactions involving RMB in the PRC were placed through the People's Bank of China (the "PBoC") or other authorised financial institutions at the official exchange rate set by the State Administration of Foreign Exchange (the "SAFE", previously known as the PRC State Administration of Exchange Control). RMB could also be converted at swap centres established by SAFE ("Swap Centres"), which were open to PRC enterprises and foreign investment enterprises, at exchange rates largely determined by the actual demand and supply of foreign currency in the PRC. Transactions effected through Swap Centres were subject to SAFE approval. The exchange rate quoted by SAFE generally differed from the exchange rate quoted by the Swap Centres.

On 1st January, 1994, the PRC government abolished the two-tier system of exchange rate between RMB and foreign currencies by adopting a unified floating exchange rate system largely based on market demand and supply. Under the unified system, the PBoC publishes a daily exchange rate for RMB (the "PBoC Exchange Rate") based on the previous day's dealings in the inter-bank foreign exchange market. Financial institutions authorised to deal in foreign currency may enter into foreign exchange transactions at exchange rates within an authorised range above or below the PBoC Exchange Rate according to the market conditions.

Since 1996, a number of rules, regulations and notices (the "Policies") have been issued by the PRC government which are designed to provide for greater convertibility of the RMB. Under the Policies, a foreign investment enterprise ("FIE") must now establish a "current account" and a "capital account" with a bank authorised to deal in foreign exchange. In addition, the Policies also give the SAFE the authority to deal in foreign exchange and to determine the maximum amount of foreign exchange an FIE may maintain in its current account in accordance with the paid-up capital of the FIE and its need for foreign currency working capital. Any foreign currency balance in the current account in excess of the maximum limit determined by the SAFE are required to be sold either to a bank authorised to conduct foreign exchange business or, prior to 1st December, 1998, through a foreign exchange swap centre. With effect from 1st July, 1996, FIEs may exchange RMB for foreign currency at authorised banks without any need for prior approval from SAFE if such funds are in respect of current account items. There can be no assurance, however, that these Policies will not be revoked or amended.

"Current account items" include dividends and other forms of profits distribution to foreign investors in the FIEs. Pursuant to the Policies and subject to the payment of applicable taxes, FIEs may distribute dividends in foreign currency either by distributing foreign currency funds balances maintained in their current accounts or by exchanging RMB dividends into foreign currency through authorised banks. The FIE must, however, present to the authorised banks the resolution of its board of directors authorising the distribution of profits.

"Capital account items" include the foreign currency capital of an FIE, the repayment of the principal amount of foreign currency loans and any payment pursuant to foreign currency guarantees. The transfer or disposal of foreign currency capital in the FIEs and the remittances of foreign investment funds out of the PRC will require prior approval of the SAFE.

RISK FACTORS

As from 1st December, 1998, Swap Centres became restricted to conducting foreign exchange transactions between authorised banks and inter-bank lending between PRC banks and are no longer available to FIEs to exchange their RMB into foreign currencies. Instead, FIEs are required to conduct all their foreign exchange transactions through authorised banks. Apart from the change of function of Swap Centres, the procedures and requirements for exchanging RMB into foreign currencies remain unchanged.

The Group may need foreign exchange for payment of dividends or for purchases of parts and components for its products in the future. Any change in the procedures and requirements in relation to the exchange of RMB into or from foreign currencies may impair the operations of the Group.

Exchange rate of RMB

The Group sells all of its products and services to PRC customers and sources various imported components for its production from domestic distributors. Accordingly any fluctuations in the exchange rate of RMB may directly affect the price of imported components and hence the Group's operating margin. On the other hand, fluctuations in the exchange rate may affect the purchasing power of the existing and potential customers in the PRC, which will in turn affect the turnover and operating margin of the Group. In addition, the Group's results in the future may also be affected by fluctuations in the exchange rate of RMB as revenue generated and expenses incurred by the Group are expected to be predominantly denominated in RMB which will then be translated to \$ at the applicable rates of exchange. However, there can be no assurance of the stability of the exchange rate of RMB in the future.

Legal and other regulatory considerations

In the PRC, TV broadcasting is administrated by the MII and SARFTV and governed by the Regulations on Radio and Television Administration promulgated in August, 1997. Please refer to the section headed "Industry Overview" below for details of the Regulations on Radio and Television Administration. Save for the restrictions under the Regulations on Radio and Television Administration in respect of the broadcasting of TV programmes through TV networks, there are currently no laws, regulations or governmental guidelines in the PRC that regulate the data broadcasting industry. If there is any change in the laws, regulations or governmental guidelines in the PRC in relation to the data broadcasting industry in the future, the Group's business could be adversely affected.

WTO

A bilateral World Trade Organisation agreement ("WTO Agreement") was entered into between the PRC Government and the U.S. Government on 15th November, 1999. It is believed that the WTO Agreement will pave the way for PRC to enter WTO. However, the PRC Government has yet to complete negotiations with other WTO members. Pursuant to the WTO Agreement, the overall tariffs of PRC will fall to an average of about 17%. The PRC's entry to the WTO may bring along other foreign competitors which in turn may adversely affect the profitability of the Group as it is expected that customs duties on imported goods (as in the context of data broadcasting industry, data broadcasting hardware or parts and components therefor) will be substantially reduced or eliminated.

RISK FACTORS

Taxation

Pursuant to the Income Tax Law of the PRC for enterprises with foreign investment and foreign enterprises, together with the Detailed Implementation Rules and Regulations for implementation of the Income Tax Law of the PRC for enterprises with foreign investment and foreign enterprises (collectively the “Income Tax Law”), Tiancai Network is subject to an income tax rate of 33%. Pursuant to an approval document issued by Tianjin High-tech Industry Park State Tax Bureau, Tiancai Network enjoys preferential tax treatment, whereby it is exempted from income tax for the first two profit-making years of operation and a 50% reduction in the income tax for the next three years.

There is no assurance that there will be no change in the future in respect of the current preferential tax treatment enjoyed by the Group, which changes may adversely affect the profitability of the Group.

OTHER RISKS

Dilution

The Placing Price per Share is substantially higher than the adjusted net tangible assets per Share of approximately 3.3 cents prior to the Placing (based on the adjusted net tangible assets of approximately \$1,437,000 before adjustment of net proceeds of the Placing and a total of 42,975,000 Shares immediately after the Capitalisation Issue). Accordingly, subscribers of Placing Shares in the Placing at the minimum Placing Price of \$1.18 per Share will incur an immediate dilution of 80 cents per Share or 67.8% to 38 cents after the Placing. Please refer to the subsection headed “Adjusted net tangible assets” under the section headed “Financial information” in this prospectus.

Active trading market and fluctuation in trading price for the Shares

There has been no public market for the Shares prior to the listing of the Shares on GEM. The Placing Price will be determined by negotiation between the Company and Oriental Patron taking into consideration a number of factors including the prevailing market conditions, the market value of publicly traded companies that the Company and Oriental Patron believe are comparable to the Company, the state of the Company’s development and its financial condition, the history of and prospects for the Company’s data broadcasting business and the data broadcasting industry in the PRC, the prospects for future revenues and earnings of the Company and other factors deemed relevant. The Placing Price may not be indicative of the price at which the Shares will be traded following their listing on GEM.

In addition, no assurance can be given that an active trading market for the Shares will develop, or if it does develop, will sustain following the listing of the Shares on GEM or that the market price will not fall below the Placing Price.

The trading price of the Shares could also be subject to significant volatility in response to, among other factors:

- investors’ perception of the Company and investments relating to the PRC;
- development of the data broadcasting industry;
- fluctuation in the Group’s operating results;

RISK FACTORS

- announcement of new products and services;
- technological innovations;
- changes in pricing of the Group, its competitors or providers of alternative services;
- the depth and liquidity of the market for the Shares; and
- general economic or other factors.

Minimum subscription

The Placing is not underwritten and is conditional upon, among other things, a minimum amount of \$35.4 million being raised under the Placing and the relevant consideration being received before the commencement of dealings in the Shares on GEM. The Placing will not proceed if this condition is not fulfilled on or before 21st January, 2000 or such later date as may be agreed by Oriental Patron and the Company (in case the Placing Price is not determined on or before 17th January, 2000), but in any event not later than 8th February, 2000.

WAIVERS

Waiver in respect of Rule 11.12 of the GEM Listing Rules

Pursuant to Rule 11.12 of the GEM Listing Rules, a new applicant must demonstrate that, throughout the period of 24 months immediately preceding the date of the listing document, it has actively pursued one focused line of business under substantially the same management and ownership as exist at the time of the application for listing.

Tiancai Network was established in June 1999 with a view to rewarding and motivating the Group's research and development professionals and other key personnel pursuing the data broadcasting business. The establishment of Tiancai Network resulted in a substantial dilution of Genius' interests in Tiancai Network's underlying data broadcasting business from 100% to 30%. As a result of the Reorganisation, certain key personnel of the Group who are responsible for the development and operation of Tiancai Network became the beneficiaries of the remaining 70% interests in Tiancai Network via a fixed trust.

Despite the establishment of Tiancai Network:

1. the data broadcasting business of the Group will continue to be managed and operated by the same team of dedicated professionals as in the period of active business pursuits;
2. a significant degree of "control" over the data broadcasting business of the Group will be preserved by virtue of Genius' interest as a substantial shareholder in Tiancai Network; and
3. the relevant staff responsible for the data broadcasting projects will hold an interest in the data broadcasting business of the Group and will be rewarded and motivated via the prospective expansion of the business operation of the Group.

As a result of such dilution of Genius' interest in Tiancai Network, substantial continuity of ownership for the purposes of Rule 11.12 of the GEM Listing Rules has not been preserved.

In light of the change of ownership in the data broadcasting business of the Group during the past 24 months immediately preceding the proposed date of this prospectus, the Company has applied to the Stock Exchange for a waiver from compliance with the continuity of ownership requirement set out under Rule 11.12 of the GEM Listing Rules from the Stock Exchange.

Waiver in respect of Rule 13.16 of the GEM Listing Rules

Pursuant to Rule 13.16 of the GEM Listing Rules, a new applicant shall procure that every initial management shareholder who, immediately prior to the listing date, is entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the issuer undertakes to the new applicant and the Stock Exchange that, for a period of two years from the listing date, he will not dispose of (nor enter into any agreement to dispose of) any of his interests in the relevant securities of the issuer.

The stock borrowing arrangement entered into between Oriental Patron and Ultra Challenge is to facilitate settlement of over-allocation in connection with the Placing pending exercise of the Over-allotment Option or the acquisition of a sufficient number of Shares from other sources which may result in non-compliance with Rule 13.16 of the GEM Listing Rules.

WAIVERS

The granting of an Over-allotment Option together with the accompanying stock borrowing arrangement is a practice adopted by Oriental Patron to facilitate the distribution of the Shares under the Placing. The Company has applied to the Stock Exchange for a waiver from compliance with the requirement set out under Rule 13.16 of the GEM Listing Rules from the Stock Exchange. Such waiver application is made on the basis that (1) such stock borrowing arrangement from Ultra Challenge will only be effected by Oriental Patron for settlement of over-allocation in connection with the Placing; (2) the maximum number of Shares borrowed from Ultra Challenge will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option; and (3) the same number of Shares will be returned to Ultra Challenge or its nominees (as the case may be) no later than three business days 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.

Waivers in respect of Rules 7.03 (1), 11.10 and 11.11 of the GEM Listing Rules and paragraph 31 of the Third Schedule to the Companies Ordinance

The Directors are aware of the following requirements:

- (i) Rules 7.03(1) and 11.10 of the GEM Listing Rules which require that the accountants' report included in this prospectus must include the combined results of the Group in respect of each of the two financial years immediately preceding the issue of this prospectus and according to Rule 11.11 of the GEM Listing Rules, the latest financial period of the Company reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The accountants' report contained in this prospectus has been prepared to include combined results of the Group for each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999 only.**
- (ii) Paragraph 31 of the Third Schedule to the Companies Ordinance which requires this prospectus to include a report by the auditors of the Company with respect to the profits and losses of the Group for each of the two years ended 31st December, 1999 and the assets and liabilities of the Group as at 31st December, 1999.**

The Company has applied to the Stock Exchange for waivers from compliance with the requirements referred to in (i) and has been granted by the Securities and Futures Commission a certificate of exemption from compliance with the requirement referred to in (ii). The Directors confirmed that they have performed sufficient due diligence on the Group to ensure that, save as disclosed herein, up to the date of the issue of this prospectus, there has been no material adverse change in the financial position of the Group since 30th June, 1999, and there is no event which would materially affect the information shown in the accountants' report of the Group as set out in Appendix I to this prospectus.

Waiver in respect of certain requirements under the GEM Listing Rules for Continuing Connected Transactions

The Genius Group is deemed to be a connected person of the Company for the purpose of the GEM Listing Rules. Accordingly, for so long as the Genius Group remains a connected person of the Company for the purpose of the GEM Listing Rules, all transactions between the Group and the Genius Group subsequent to the listing of the Shares on GEM will constitute continuing connected transactions of the Company for the purpose of the GEM Listing Rules which depending on the size of each transaction, may require full disclosure and/or approval of the independent Shareholders in general meeting.

WAIVERS

The Directors currently intend that certain transactions (“Continuing Connected Transactions”) with the Genius Group will continue in the ordinary and usual course of business of the Group after the listing of the Shares on GEM. As the Continuing Connected Transactions are of a recurring nature and are expected to continue in the future in the ordinary and usual course of business of the Group as defined in the GEM Listing Rules, the obligations to make full disclosure and/or to seek approval of the Shareholders in general meeting from time to time would be impracticable and unduly burdensome. The Company has sought from the Stock Exchange a conditional waiver from strict compliance with such obligations.

Please refer to the paragraph headed “Continuing Connected Transactions” under the section headed “Business” for details of the Continuing Connected Transactions and the application to the Stock Exchange for a conditional waiver in respect thereof.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Act, the Companies Ordinance, the Securities (Stock Exchange Listing) Rules 1989 (as amended) and the GEM Listing Rules for the purposes of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONSENT OF THE BERMUDA MONETARY AUTHORITY

The Bermuda Monetary Authority has given its consent to the issue of the Placing Shares (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) on the terms of this prospectus, the issue of Remuneration Shares, the issue of Shares pursuant to the Capitalisation Issue and the issue of Shares upon the exercise of the options granted under the Share Option Scheme and, subject to certain conditions, the issue of further Shares up to the total amount of the authorised share capital of the Company as referred to in the section headed "Share capital" on page 84 of this prospectus. In granting such consent and in accepting this prospectus for filing, neither the Bermuda Monetary Authority nor the Registrar of Companies in Bermuda accepts any responsibility for the financial soundness of the Group or for the correctness of any of the statements made or opinions expressed in this prospectus.

THE PLACING

Placing Shares To Be Offered In Certain Jurisdictions Only

No action has been taken in any jurisdiction other than Bermuda and Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute an offer or invitation in any jurisdiction or in any circumstance in which such offer or invitation is not authorised to any person to whom it is unlawful to make an unauthorised offer or invitation. Persons into whose possession this prospectus may come are required by the Company and Oriental Patron to inform themselves about and to observe such restrictions.

The Placing Shares are offered for subscription by way of placing. The Placing is subject to the conditions set out under the section headed "Placing structure and expenses" in this prospectus. Each person subscribing for the Placing Shares in the Placing will be required to, or deemed by its subscription for the Placing Shares to, confirm that it is aware of the restrictions on offers of the Placing Shares described in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

Placing Not Underwritten

The Placing is not underwritten. Should the amount raised under the Placing be less than \$35.4 million, the Placing will not proceed.

Fixing of the Placing Price

The Placing Price will be determined in Hong Kong by Oriental Patron and the Company on or before 17th January, 2000, or such later date as may be agreed by Oriental Patron and the Company, but in any event not later than 1st February, 2000.

If, for any reason, the Placing Price is not determined on or before 17th January, 2000, the expected listing timetable will be postponed, but in any event the expected date of commencement of dealings in the Shares on GEM will not be later than 9th February, 2000.

If, for any reason, Oriental Patron and the Company are unable to reach agreement on the Placing Price by 17th January, 2000, or such later date as may be agreed by Oriental Patron and the Company, but in any event not later than 1st February, 2000, the Placing will not proceed.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee of the Stock Exchange for listing of and permission to deal in its existing Shares, the Placing Shares (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option), Shares which are to be issued pursuant to the Capitalisation Issue and any Shares which may fall to be issued pursuant to the exercise of options under the Share Option Scheme on GEM.

No part of the Company's share or loan capital is listed or dealt in on any other stock exchange. At present, the Company is not seeking or proposing to seek any listing or permission to deal on any other stock exchange.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential Shareholders are recommended to consult their professional advisers if they are in doubt as to the taxation implications of the subscription for, holding, purchase or disposal of or dealing in the Shares or exercising their rights thereunder. It is emphasised that none of the Company, the Directors, Oriental Patron, their respective directors or any other person involved in the Placing accepts responsibility for any tax effects on, or liabilities of, holders of Shares resulting from the subscription for, holding, purchase or disposal of or dealing in, the Shares.

REGISTRATION AND STAMP DUTY

All Shares in issue must be registered on the Company's branch register of members to be maintained by HKSCC Registrars Limited in Hong Kong. The Company's principal register of members will be maintained by The Bank of Bermuda Limited in Bermuda.

Dealings in Shares registered on the branch register of members of the Company in Hong Kong will be subject to Hong Kong stamp duty.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

STABILISATION AND OVER ALLOCATION

In connection with the Placing, Oriental Patron may over-allocate Shares and may cover such over-allocation by exercising the Over-allotment Option no later than 30 days after the date of this prospectus, stock borrowing or making open market purchase in the secondary market. The number of Shares over-allocated will not be greater than the number of Shares which may be issued upon exercise of the Over-allotment Option, being 4,500,000 Shares, which is about 15% of the Shares initially available under the Placing. Oriental Patron may also effect transactions which stabilise or maintain the market price of the Shares. Any such over-allocation, stock borrowing, purchase or transaction will be made in compliance with all applicable laws.

Stabilisation is a practice used by securities practitioners in some markets to facilitate the distribution of securities. To stabilise, securities practitioners 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 public offer prices of the securities. 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.

Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. In Hong Kong, such stabilisation activities are restricted to cases where securities practitioners genuinely purchase shares on the secondary market solely for the purpose of covering over-allocation in an offering. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of Shares, they will be done at the absolute discretion of Oriental Patron. The prices of the Shares being purchased in the secondary market shall not exceed the Placing Price. The relevant provisions of the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

In order to facilitate the settlement of over-allocation in connection with the Placing, Oriental Patron may either borrow Shares from Ultra Challenge under stock borrowing arrangements pending exercise of the Over-allotment Option, or acquire a sufficient number of Shares from other sources. Such stock borrowing arrangements may include arrangements agreed in principle between Oriental Patron and Ultra Challenge. Application has been made to the Stock Exchange for a waiver from the strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of Shares by Ultra Challenge following 2 years from the date of listing of the Shares on GEM, in order to allow Ultra Challenge to enter into such stock borrowing arrangements. The waiver application is made on the basis that (1) such stock borrowing from Ultra Challenge will only be effected by Oriental Patron for settlement of over-allocation in connection with the Placing; (2) the maximum number of Shares borrowed from Ultra Challenge will be limited to the maximum number of Shares which may be issued upon exercise of the Over-allotment Option; and (3) the same number of Shares will be returned to Ultra Challenge or his nominees (as the case may be) 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. Ultra Challenge will not receive any payment or benefit in respect of such stock borrowing arrangements. Any stock borrowing arrangements will be conducted in accordance with all applicable laws and regulatory requirements.

STRUCTURE OF THE PLACING

Details of the structure of the Placing, including conditions, see the section headed “Placing structure and expenses” on pages 102 to 105 of this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on GEM by the Stock Exchange as well as the compliance with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or on any other date Hongkong Clearing chooses.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

DEALINGS AND SETTLEMENT

Dealings in the Shares are expected to commence on Monday, 24th January, 2000.

Shares will be traded in board lots of 2,000 Shares each.

The expected GEM stock code for the Shares is 8016.

The Company will not issue any temporary documents of title.

Dealings in the Shares on GEM will be effected by members of the Stock Exchange whose bid and offer quotations will be made available on the GEM website (<http://www.hkgem.com>) and the Stock Exchange's teletext page information system.

Settlement of transactions between members of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

EXCHANGE RATE CONVERSION

For purposes of this prospectus, unless otherwise indicated, the following exchange rates have been used, where applicable, for purposes of illustration only and do not constitute a representation that any amounts have been, could have been or may be exchanged, at these or any other rates:

\$7.74 = US\$1.00

\$100 = RMB107

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Professor KOU Jisong (Chairman)	No. 26-3-302 Si Ji Cun Tianjin University Tianjin, the PRC	PRC
Mr. DONG Jian Xin	No. 3 Hua Tian Road Huayuan Industry Area Tianjin Hi-tech Industry Park Tianjin, the PRC	PRC
Professor LI Min Qiang	No. 17-6-602 Bei Wu Cun Tianjin University Tianjin, the PRC	PRC
Mr. YAO Xiao Dong	No. 22-401 Hang Ren Building No. 3 Ding Zi Cu Road Tianjin, the PRC	PRC
<i>Independent non-executive Directors</i>		
Mr. LI Shan Hai	No. 2-401, Block B, Hua Chang Building Ti Yuan Bei Tianjin, the PRC	PRC
Mr. Andrew SHERRILL	B3, 17th Floor 126-130 Kennedy Road Mid Level, Hong Kong	American
Mr. WANG Fu Sun	Room 1001, 10th Floor Fang Xing Garden, District 1 Fang Zhuang Beijing, the PRC	PRC

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

PARTIES INVOLVED

Sponsor and Manager

Oriental Patron Asia Limited
42nd Floor, COSCO Tower
183 Queen's Road Central
Hong Kong

Legal advisers to the Company

As to Hong Kong Law
Richards Butler
20th Floor, Alexandra House
16–20 Chater Road
Central
Hong Kong

As to PRC Law
Commerce & Finance Law Office
714 Huapu International Plaza
19 Chaowai Avenue
Chaoyang District
Beijing, 100020
PRC

As to Bermuda Law
Conyers Dill & Pearman
3408 Two Exchange Square
8 Connaught Place
Central
Hong Kong

Legal advisers to the Sponsor and Manager

Johnson Stokes & Master
16th–19th Floors, Prince's Building
10 Chater Road
Central
Hong Kong

Reporting accountants

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

Property valuer

Sallmanns (Far East) Limited
15th Floor, Trinity House
165–171 Wanchai Road
Wanchai
Hong Kong

CORPORATE INFORMATION

Registered office	Clarendon House 2 Church Street Hamilton HM 11 Bermuda
Head office and principal place of business	No. 3 Hua Tian Road Huayuan Industry Area Tianjin High-Tech Industry Park Tianjin PRC
Hong Kong liaison office	6th Floor, Hing Yip Commercial Centre, 272–284 Des Voeux Road Central, Hong Kong
Compliance officer	Mr. YAO Xiao Dong
Qualified accountant	Mr. CHAI Chi Man <i>FHKSA FCCA</i>
Company secretaries	Mr. CHAI Chi Man <i>FHKSA FCCA</i> Mr. Ira Stuart OUTERBRIDGE III*, <i>FCIS</i>
Authorised representatives	Professor KOU Mr. CHAI Chi Man <i>FHKSA FCCA</i>
Members of the audit committee	Mr. LI Shan Hai Mr. Andrew SHERRILL Professor LI Min Qiang
Bermuda resident representative	Mr. John Charles Ross COLLIS
Bermuda deputy resident representative	Mr. Anthony Devon WHALEY
Bermuda principal share registrar and transfer office	The Bank of Bermuda Limited Bank of Bermuda Building 6 Front Street Hamilton HM 11 Bermuda
Hong Kong branch share registrar and transfer office	HKSCC Registrars Limited 2nd Floor Vicwood Plaza 199 Des Voeux Road Central Hong Kong
Principal banker	International Bank of Asia Limited Shop 2, G/F., Wu Chung House 213 Queen's Road East Hong Kong

* Mr. Ira Stuart Outerbridge III will resign as a secretary of the Company immediately following the listing of the Shares on GEM.

INDUSTRY OVERVIEW

The information presented in this section and identified as having been extracted from publicly available documents has not been prepared or independently verified by the Company, the Sponsor or any of their respective advisers or affiliates in connection with the Placing. The Company makes no representation to the accuracy of this information, which may not be consistent with other information compiled within and outside the PRC. Accordingly the information contained in this section may not be accurate and should not be unduly relied upon.

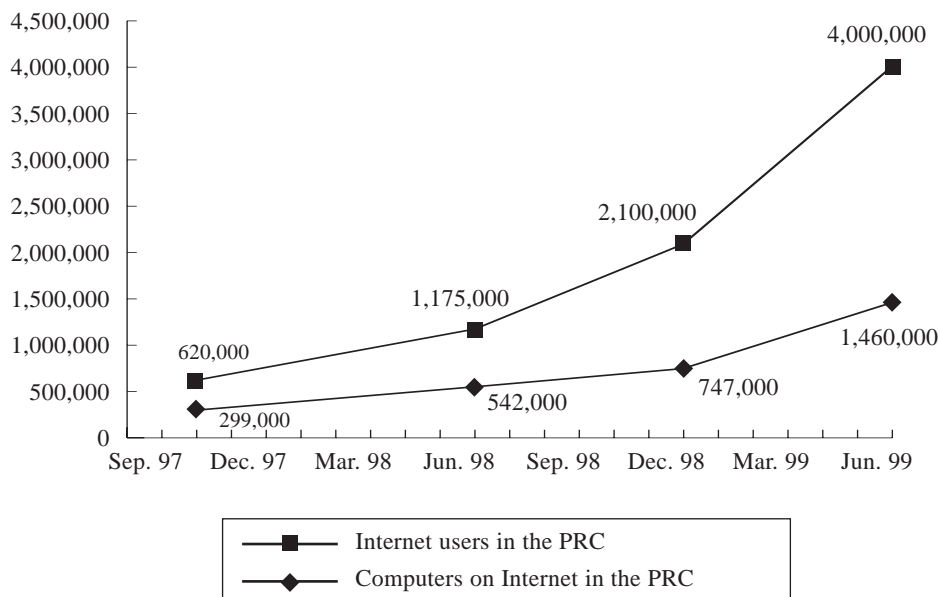
General

The Directors consider that data broadcasting is a new medium in the PRC and potentially a strong competitor of Internet in the PRC for dissemination of digital data. As such, the potential of data broadcasting in the PRC can be reflected in the development of Internet in the PRC.

The Internet and data broadcasting in the PRC

In April 1994, the PRC was connected to the 64Kbps international network and began to have access to the Internet. It set up its connection with the Internet by installing the required telecommunication links and equipment. Since then, about six hundred ISPs, including the 5 major networks in the PRC having access to the Internet, namely, ChinaNet, China Science and Technology Network, China Education and Research Network (“CERNET”), China Golden Bridge Network and China United Telecommunication Corporation Internet have been established. As at 30th June, 1999, there were approximately 4 million Internet users and 1.46 million computers accessing the Internet in the PRC.

Numbers of Internet users and computers on Internet in the PRC



Source: CNNIC

INDUSTRY OVERVIEW

The operation of the Internet in the PRC is greatly dependent on telecommunication networks, which were largely owned and controlled by China Telecom. Under this market structure, the service fees paid by the ISPs to China Telecom for securing the use of international telecommunication links between overseas Internet and China Telecom Internet Centre, domestic telecommunication links between China Telecom Internet Centre and operating centres of ISPs, and to local Post and Telecommunications Bureaus for the use of telephone lines were very high. Such costs were ultimately borne by the end-users who typically have to pay a sign-up fee, a service fee (which is in the form of a monthly lump sum or is calculated according to actual usage) and telephone charges (which is based on connection time). According to a research paper published in the Industry Forum in May 1999, the cost of acquiring the same amount of data from the Internet in the PRC, in terms of average purchasing power, is 4,032 times of that in the United States of America. The State Planning Commission and MII announced further reduction of the telecommunication fee in October 1999. Due to the narrow-band telephone networks and the congested gateways, the Internet users in PRC frequently encounter long delays or failure in accessing the Internet and in downloading information from the Internet. Depending on the number of Internet users who are concurrently accessing network resources, the actual transmission rate at the user end can be as low as approximately 1Kbps for Internet connections supporting a transmission rate of 28.8Kbps to 33.6Kbps.

Potential of data broadcasting

The Directors consider that data broadcasting is potentially a strong competitor of the Internet in the PRC. According to Statistical Report of the Development of China Internet issued in July 1999 by CNNIC, approximately 56.8% of the respondents put “browsing for information” on the top of their lists of reasons for accessing the Internet. This, together with the rapid growth of the number of Internet users, shows a large demand for information in the PRC. At present, Internet can be accessed in the PRC mainly through telephone networks whereas data broadcasting transmits digital data through TV networks. While Internet users in the PRC are complaining about the high cost, long delays and slow response in accessing the Internet due to the price structure of telecommunication services, data broadcasting provides an alternative means to Internet for browsing information.

Internet adopts point-to-point data transmission which is characterised by mutually exclusive consumption of transmission capacity. Data broadcasting adopts point-to-multi-point transmission to enable large chunks of data to be transmitted swiftly and simultaneously through TV networks to a large number of subscribers. Data broadcasting overcomes the problems of connecting to and transmitting data over the Internet in the PRC. Furthermore, due to the point-to-multi-point transmission characteristic of data broadcasting, the marginal cost for cable TV network operators to transmit data to each additional subscriber is virtually zero. As data broadcasting transmits data through existing TV networks and no service fees have to be paid by TV network operators to telecommunication network operators as in the case of Internet access providers, in the long run, the cost of subscribing to data broadcasting services is much lower than that of subscribing to Internet services in the PRC.

The huge number of existing cable TV subscribers also demonstrates the potential of data broadcasting in the PRC. According to China Computerworld, a press in the information technology service industry in the PRC, to date, cable TV networks have a coverage in terms of geographical area of approximately 50% in the PRC and approximately 70% in the major cities and the total number of cable TV subscribers, who are potential subscribers to data broadcasting services, amounted to about 80 million. According to an article dated 1st April, 1999 in China Computerworld, the market anticipates that the number of cable TV subscribers will increase at a rate of 5 million per year in the coming years. Such increase outnumbers the Internet users in the PRC as at June 1999.

INDUSTRY OVERVIEW

Data broadcasting vs Internet as a medium for dissemination of digital data in the PRC

Data broadcasting has several advantages over Internet as a medium for dissemination of digital data:

- Digital signals are exchanged via the Internet by point-to-point interactive transmission between pre-determined transmission and reception points. As such, the transmission capacity of the Internet is limited by its exclusive consumption characteristic. Each user connected to the Internet will occupy some transmission capacity of the network and restrict the access of other users. Such feature of the Internet may dampen the transmission speed of the network and may even result in connection failure. On the other hand, data broadcasting offers simultaneous delivery of data to all users where the TV signal reaches.
- A majority of the Internet users in the PRC access the Internet through the narrow-band telephone networks whereas data broadcasting transmits digital data through broad-band TV networks. Due to the quality of the existing telephone networks in the PRC, the maximum transmission rate of dial-up connection to Internet in the PRC through telephone network is approximately 33.6 Kbps whereas the transmission rate of VBI and FC data broadcasting can be up to approximately 256 Kbps and 5 Mbps respectively.
- The use of Internet consumed the scarce resources of the telecommunication networks in the PRC whereas data broadcasting utilises the unused capacity of TV networks.
- Due to the exclusive consumption feature of the Internet, the transmission cost over the telecommunication network is positively related to the number of Internet users. The marginal cost for cable TV network operators to transmit data to each additional subscriber by way of data broadcasting, on the other hand, is virtually zero. In the long run, the cost of subscribing to data broadcasting services is much lower than that of subscribing to Internet services.
- As data broadcasting adopts technologies of transmitting digital data through the existing infrastructure of the TV network operators, substantial investment and time cost for infrastructure construction can be saved.

Data broadcasting is a one-way transmission system. It offers a cost effective solution for applications which principally support one-way data transmission. However, applications with the majority of data transmitted in one direction and low return volume can adopt a hybrid system comprising a data broadcasting system which carries the bulk of data one-way and a modem link which carries limited data the other way.

With the development of broad-band Internet access, which may involve substantial investment in telecommunication infrastructure, the problem of low-speed and connection failure of Internet in the PRC may be eased off.

Development of data broadcasting in the PRC

In the past years, there was a trend for the major satellite and cable TV network operators in the PRC to install VBI data broadcasting systems, mainly to broadcast real-time stock quotations. VBI transmission has a lower transmission rate than FC transmission, thereby restricting the provision of multimedia services. In the past, only subscribers with data broadcasting plug-in boards installed in their PCs can receive data by means of data broadcasting. As a result, the subscriber base of data

INDUSTRY OVERVIEW

broadcasting services could not be expanded on a large scale. It is expected that the implementation of FC data broadcasting and the introduction of TV set top boxes for its reception will enable data broadcasting to become a mass medium of the new generation.

On the other hand, since the respective data broadcasting systems currently installed by various TV network operators were developed by different companies and institutes, they are often incompatible with each other. In addition, as most of these data broadcasting systems do not conform to the CCST standard, they do not support the transmission of Teletext and may even interfere with TV pictures.

The Directors are not aware of any internationally recognised standards for data broadcasting. Further, given that the television broadcasting standards and Teletext standards adopted in the PRC are different from those adopted in other developed countries, any standards adopted in other countries may not be applicable and relevant to the PRC market. In view of the chaos in the data broadcasting industry in the PRC as a result of the lack of a set of industry standards, SARFTV appointed the Broadcasting Technology Research Institute (廣播科學研究院) to set the industry standards for VBI data broadcasting. All the data broadcasting systems installed by the TV network operators will then be required to pass the examination and be certified by the examination centre of Broadcasting Technology Research Institute and all reception modules have to conform with such standards. The Broadcasting Technology Research Institute held an industry forum regarding the setting of the industry standards for VBI data broadcasting in November 1999. During the industry forum, certain companies engaged in the data broadcasting industry agreed to form a drafting committee for the standardisation of VBI data broadcasting in the PRC and, each member of the committee shall contribute to the drafting, research and verification works undertaken by the committee. Members of the drafting committee will also form a data broadcasting alliance to assist the setting and implementation of industry standards, make suggestions for and assist administrative authorities to implement the industry rules and regulations. It is expected that the standardisation of the data broadcasting industry will further stimulate the growth of the data broadcasting market in the PRC.

The PRC's entry to the WTO may bring along other foreign competitors as it is expected that customs tariffs on imported goods (as in the context of data broadcasting industry, data broadcasting hardware or parts and components therefor) will be substantially reduced or eliminated. Companies in the PRC which need to import parts and components for their production will on the other hand benefit from the possible reduction of custom tariffs. So far as the PRC's data broadcasting industry is concerned, the possible entry of foreign competitors after the PRC's entry to the WTO may expedite the development and popularity of data broadcasting in the PRC.

TV broadcasting in the PRC

Data broadcasting relies on TV networks for transmission of data. Hence the development of data broadcasting will largely depend on the development of TV broadcasting in the PRC.

Administration

The broadcasting system of digital data over TV networks is subject to and regulated by the rules and regulations governing TV broadcasting in the PRC, the general framework of which is illustrated as follows.

INDUSTRY OVERVIEW

The TV broadcasting industry in the PRC is administered by the MII and SARFTV. SARFTV is responsible for national radio and TV administration while LARFTV is in charge of local radio and TV administration within its respective jurisdictions. The MII is responsible for the overall planning of TV broadcasting networks, the administration of the TV industry and the setup of technological standards for TV broadcasting transmission networks.

Under the Regulations on Radio and Television Administration promulgated in August, 1997 by the State Council of PRC, SARFTV is responsible for working out national plans for the establishment of radio and television stations and determining the number, layout and structure of radio and television stations. SARFTV plans national TV networks in a unified manner according to national standards and the TV networks are constructed and developed at different levels. LARFTV constructs and manages the local TV networks within its administrative region in accordance with relevant regulations in the PRC. A transmission network as mentioned in the regulations refers to the entirety of radio or TV transmitting stations, relay stations (including transponder stations), radio or TV broadcasting satellites, satellite uplink and downlink facilities as well as micro-wave stations, monitoring and testing stations, cable radio and TV transmission networks, etc.

SARFTV assigns frequencies (or frequency bands) for radio and TV broadcasting. It is also responsible for the examination and issuing of certificates for the assigned frequencies. TV network operators have to offer programs within the standards approved by SARFTV. In organising and constructing a TV transmission network, the departments responsible for the project shall aim at making full use of existing network resources including various public communication networks and ensuring the smooth and high-quality transmission of TV programmes.

TV programmes can only be produced by entities engaged in editing, production and broadcasting of TV programmes in the PRC which are established upon the approval of the administrative department of radio and television under the people's government at or above the provincial level ("TV Broadcasters"). No TV Broadcasters may broadcast any programme produced by organisations which do not have a license to produce TV programmes.

TV Broadcasters are prohibited from the production and broadcast of programmes containing any of the following contents:

1. content which endangers the unification, sovereignty of the PRC and territorial integrity;
2. content which endangers national security, national prestige or the interests of the PRC;
3. content which instigates national splits and undermines national solidarity;
4. content which divulges secrets of the PRC;
5. content which slanders or insult citizens;
6. content which disseminates pornography or superstition or exaggerates on violence; and
7. any other content prohibited by law or administrative regulations and rules.

TV Broadcasters have to examine TV programmes prior to broadcast and conduct re-examination of the programmes prior to re-broadcast and accordingly bear the consequence of a breach of broadcasting prohibited contents.

INDUSTRY OVERVIEW

Future development

According to a speech made by officials of the FTVIBNC on “the present condition and future development of broadcasting business over TV and computer networks” delivered in November 1997, cable TV networks in the PRC have been proceeding towards integration at national level, digitisation and multifunction performance. The development of cable TV networks started at the district level, to the municipal and county level, the provincial level and eventually the national level. As at the end of August 1999, except for certain provinces and municipalities, TV networks established by SARFTV have been integrated at the national level. With the increasingly sophisticated digital, computer and Internet technologies, the cable TV network operators in the PRC develop integrated information businesses to fully utilise their wide-band resources. The existing one-way networks will gradually be replaced by two-way networks and the newly constructed networks will adopt two-way systems.

Information services can be developed and computer networks can be integrated at the national level by utilising the existing cable TV trunk line networks, in particular the wide-band cable TV user connection networks, the satellite networks and the national microwave networks.

In 1999, the State Council approved the establishment of China Network Information Company (中國網絡資訊公司) which will engage in the development of broad-band Internet connection in the PRC utilising cable TV networks. The State Planning Commission also approved SARFTV for the research and development of standard for multi-function set top boxes. FTVIBNC expected that the market for information-related electronic home appliances will be promising following the development of business of cable TV networks and the setting of industry standards for cable TV networks.

According to FTVIBNC, the major targets of the development of TV broadcasting industry in the PRC include, among other things, digitising of networks and user equipment by 2000, domestic cable TV household subscription rate reaching 30%, the number of domestic household subscribers reaching 80 million, adoption of optical fiber for and the standardisation of the cable TV trunk line networks, introduction of multimedia TVs and the introduction of the technology of unifying TVs and PCs to commercial and domestic users.

According to the China Statistical Yearbook 1999, there were 1,403 cable TV network operators at county level in the PRC in 1998. At present, over 2000 administrative counties in the PRC have access to cable TV networks. Subscribers to cable TV services in PRC amount to about 80 million, ranking the first in the world. Cable TV has become the most pervasive communication tool with the highest household coverage in the PRC.

The market is focusing on exploring business opportunities in services provided through cable TV networks. Cable TV network operators in Shenzhen, Shanghai, Dalian, Qingdao, Suzhou, Nanjing, Guangdong and Tianjin have undergone trial runs in respect of Internet connection, computer networking, video-on-demand, audio-on-demand, e-commerce, IP telephony, videophone and video conferencing. Recently, some PRC companies announced their acquisitions of interests in or the formation of joint ventures with various cable TV networks.

Development of distance education system in the PRC

In the past years, the development of distance education systems over the Internet was hindered by its high operating costs and low transmission rate. The Directors are of the view that potential of distance education is high since the education level in the PRC is generally low, with large

INDUSTRY OVERVIEW

discrepancies in different geographical areas. The quality of education provided by schools in different regions also varies significantly. Given that parents in the PRC generally place great emphasis on their children's education, high quality distance education is in great demand in the PRC.

In a working conference entitled "National Digitisation of Education" (全國教育信息化) held in June 1999, the Ministry of Education revealed the national plan for the development of distance education in the PRC which will involve a total investment of about RMB18 billion. The Ministry of Education set a three-year target to develop an elementary distance education network by utilising the CERNET and satellite education TV networks in the PRC. Trial runs will be conducted in selected tertiary, secondary and primary schools. Software manufacturers are encouraged to develop distance education software and information resources. In addition, in the next two years, the Ministry of Education will experiment distance education programmes in 592 impoverished areas (100 of which are National Focus Support Establishments) by implementing reception modules for TV data broadcasting and equipments to enable off-line browsing of Internet and developing various education software and net curricula for primary, secondary and tertiary education and further education for professional teachers. To develop distance education, the Ministry of Education will implement measures to encourage investment and technology inputs in the development of public information data bases and education software. The Directors believe that the development of distance education will bring along enormous commercial opportunities.

Factors influencing the development of data broadcasting in the PRC

The Directors consider that the favourable factors influencing the industry include the following:

- Subscribers to cable TV networks substantially outnumbered PC users with access to the Internet;
- Broad-band transmission, hence high speed transmission can be achieved on cable TV networks;
- Cable TV networks have very flexible fee structure, as compared to Internet access providers in the PRC as they broadcast data to subscribers through their existing networks and no service fees have to be paid for securing the use of telecommunication networks as in the case of the Internet access providers;
- Data can be broadcast through existing cable TV networks by means of FC data broadcasting; and
- Parents in the PRC generally place great emphasis on their children's education and multimedia distance education using data broadcasting is expected to be in great demand.

The Directors consider that the unfavourable factors influencing the industry include the following:

- The negotiation in relation to the allocation of TV channel resources would be more difficult in regions where TV networks are monopolised or controlled by the major local network operators; and
- There are TV network operators who are less receptive to new technology, which characterises data broadcasting.

HISTORY AND DEVELOPMENT

Development of Genius

In 1991, Tianjin University established the Tiancai Computer Information System Engineering Technology Development Department of Tianjin University (the “Development Department”) (天津大學天財計算機信息系統工程科技開發部), a State-owned enterprise in which Tianjin University has a 100% interest. The Development Department was principally engaged in the development of computer software and network system, information processing systems and microelectronic and photoelectron technology.

On 12th February, 1996, Tianjin University increased its capital contribution to the Development Department from RMB600,000 (approximately \$560,748) to RMB3,150,000 (approximately \$2,943,925) and on 30th January, 1997 from RMB3,150,000 (approximately \$2,943,925) to RMB19,000,000 (approximately \$17,757,009) and the Development Department was renamed Tiancai Information System Engineering Centre of Tianjin University (天津大學天財信息系統工程中心) (the “Tiancai Centre”).

On 29th September, 1997, Genius’ A shares were listed on the Shenzhen Stock Exchange. Pursuant to the reorganisation prior to Genius’ listing, Tiancai University injected, among other things, the data broadcasting business of the Tiancai Centre to Genius and became a shareholder of Genius holding an approximately 45% interest in Genius. The principal businesses of the Genius Group includes the development of computer software and hardware, the integration of information systems, information services, the research and development of the integration of optical and electro-mechanical technology and chemical packaging materials and related production and sales.

Development of the Group

The Group emerged from a data broadcasting project team in the Genius Group.

The history of the Group dates back to January 1997 when the Development Department formed a project team (“Data Broadcasting Project Team”) to develop data broadcasting technology using TV signals. Foreseeing a huge market for data broadcasting, the Development Department commenced the development of data broadcasting systems evolved from CCST which was promulgated by the SARFTV in 1993.

In August 1997, the Data Broadcasting Project Team, the predecessor of the Group, successfully developed and commenced production of the PC plug-in boards for VBI data broadcasting, which was capable of receiving both data and Chinese Teletext. In December 1997, the Data Broadcasting Project Team commenced sale of such PC plug-in boards.

In October 1997, the Group entered into a cooperative agreement with Tianjin Cable TV Network for a term of five years to develop distance education services based on VBI data broadcasting technology, pursuant to which the Group provided the transmission modules for VBI data broadcasting and the relevant technical support and Tianjin Cable TV Network provided the necessary channel for VBI data broadcasting. Both parties agreed to share the income derived from data broadcasting subscription.

In January 1998, the Group started to implement transmission modules for VBI data broadcasting which were then the first locally-developed open data broadcasting system compliant with CCST in the PRC and implemented the VBI data broadcasting system for transmission of financial data on Shandong Satellite TV Network.

Since the number of data broadcasting services subscribers is crucial to the Group's success, it was the Group's strategy to establish relationships with various TV network operators to secure broadcasting networks for future development before the data broadcasting market takes off. Since January 1998, the Group started to establish strategic alliance with TV network operators nationwide in relation to which the Group contributed free transmission modules for VBI data broadcasting and technical support to these TV network operators and assisted them in sourcing information providers, namely real-time stock quotations providers and the TV network operators purchased or procured purchase of PC plug-in boards for VBI data broadcasting from the Group.

In February 1998, the Group teamed up with Tianjin Cable TV Network to develop a distance education system based on FC data broadcasting technology. Such project, comprising, among other things, the development of transmission and reception modules for FC data broadcasting, multimedia data broadcasting transmission platforms, multimedia data broadcasting information terminal software and multimedia data broadcasting information production platforms, was nominated by the Tianjin Municipal Science and Technology Commission (天津市科學技術委員會) as one of the Top Ten Focus Support Projects (十大重點支持項目). The project involved more than 20 engineers, 150 teachers and 40 multimedia production personnel.

In May 1998, the Shenzhen Metal Exchange (深圳金屬交易所) installed the Group's transmission modules for VBI data broadcasting as its financial information transmitter platform. Since then, the Group's transmission modules for VBI data broadcasting were also provided to five other financial information providers free of charge.

According to the cooperative agreement entered into between Genius and Tianjin Cable TV Network on 30th October 1997, the Group implemented the VBI data broadcasting system and the transmission modules on Tianjin Cable TV Network and real-time stock quotation was broadcast in June 1998. The Group shared the income derived from the data broadcasting service subscription with Tianjin Cable TV Network and acquired knowledge and experiences in data broadcasting.

In September 1998, the Group launched its VBI data broadcasting system and VBI distance education system in Tianjin Cable TV Network.

In November 1998, the Group and Tianjin Cable TV Network entered into a new cooperative agreement for a term of five years to develop FC data broadcasting business pursuant to which, among other things, the Group provided the transmission modules for FC data broadcasting, the distance education contents and the relevant technical support while Tianjin Cable TV Network provided the necessary channel and some hardware equipment for FC data broadcasting. Both parties agreed to share the relevant operating and advertising cost and income derived from data broadcasting service subscription.

To prepare for its future expansion, in December 1998, the Group entered into a cooperative agreement with Jiangxi Cable TV Network for a term of five years to develop distance education services based on VBI data broadcasting, pursuant to which the Group contributed free transmission modules for VBI data broadcasting and provided the distance education contents and the relevant

technical supports and Jiangxi Cable TV Network provided the necessary channel for VBI data broadcasting. Both parties agreed to share the income derived from data broadcasting service subscription.

In addition, in January 1999, the Group entered into a cooperative agreement with Tianjin Dagang Area TV Broadcasting Bureau Cable TV Network (“Dagang Cable TV Network”) for a term of one year to develop distance education services based on VBI data broadcasting, pursuant to which the Group provided the transmission modules for VBI data broadcasting and the relevant technical supports and supplied the distance education contents and Dagang Cable TV Network provided the necessary channel for VBI data broadcasting. Both parties agreed to share the income derived from data broadcasting service subscription.

In February 1999, the Group developed the first FC data broadcasting system and distance education system in the PRC by adopting FC data broadcasting technology.

In March 1999, the Group launched its FC data broadcasting system and FC distance education system at Tianjin Cable TV Network, which then had over 1 million cable TV subscribers. The Group’s FC data broadcasting PC plug-in boards, which are capable of receiving both FC and VBI data, were also marketed at the same time.

On 18th June, 1999, with a view to rewarding and motivating the Group’s research and development professionals and other key personnel pursuing the data broadcasting business, Genius and Verified Solutions established Tiancai Network, a Sino-foreign cooperative joint venture enterprise registered in Tianjin, the PRC. Its term of operation is 15 years commencing from 18th June, 1999, with a total investment and fully paid-up registered capital of US\$200,000 (about \$1,548,000), contributed as to US\$140,000 (about \$1,083,600) by Verified Solutions in cash and as to the remaining US\$60,000 (about \$464,400) by Genius by way of injection of its proprietary technology and know-how, namely the FC data broadcasting technology, which evolves from and by nature, comprises the VBI data broadcasting technology, together with data broadcasting business and the assets and liabilities thereof. The investment of Verified Solutions in Tiancai Network was funded from its internal resources, which comprised equity owned by Professor Kou. In relation to the injection of data broadcasting business into Tiancai Network, Genius has novated to Tiancai Network all the rights and responsibilities under the cooperative agreements which were entered into between the Genius Group and various TV network operators for the data broadcasting business existing prior to the establishment of Tiancai Network. Prior to the corporate reorganisation of the Group in preparation for the listing of the Shares on GEM, Verified Solutions was an investment holding company wholly owned by Professor Kou, who subsequently transferred all his interests in Verified Solutions to Ultra Challenge, details of which are described in the paragraph headed “Corporate reorganisation” in Appendix IV to this prospectus. Genius and Verified Solutions agreed to share the profit and bear the loss of Tiancai Network in accordance with their respective interest in Tiancai Network. At present, the board of directors of Tiancai Network consists of three directors. Verified Solution and Genius are entitled to appoint two and one directors of Tiancai Network respectively.

In July 1999, the Group established strategic alliance with the China Computerworld Publishing and Servicing Company, a computer newspaper publisher, for sourcing of contents. In the same month the Group’s FC data broadcasting system and FC distance education system passed the examination of the Tianjin Municipal Science and Technology Commission and were accredited as at PRC’s leading level.

BUSINESS

Having acquired the relevant experiences in strategic alliance with TV network operators, the Group started to speed up its expansion plan to share income derived from data broadcasting service subscription with TV network operators. During the period from September 1999 to the Latest Practicable Date, the Group entered into cooperative agreements with 11 TV network operators in the PRC for a term ranging from one to ten years to develop VBI and/or FC data broadcasting business, whereby the Group provided the transmission modules for VBI and/or FC data broadcasting, the materials and programmes for data broadcasting and the relevant technical supports, and the TV network operators provided the necessary channels for VBI and/or FC data broadcasting. Such cooperative agreements normally include provisions restricting both parties from entering into similar cooperative arrangements with other third parties within the relevant region. The Group and such TV network operators agreed to share the income derived from the data broadcasting subscription fees at an agreed ratio ranging from 40% to 60% or agreed amount. Of these 11 TV network operators, 8 had previously established strategic alliance with the Group and the remaining ones were newly allied with the Group. As at the Latest Practicable Date, the Group has established strategic alliance with a total of 103 TV network operators including 14 TV network operators which have entered into cooperative agreements with the Group for sharing of income derived from data broadcasting services subscription.

In October 1999, the Group debuted the prototype of the multimedia TV set top box in the China Hi-Tech Fair (“國際高新科技成果展覽會”) held in Shenzhen.

In November 1999, Tiancai Network was invited by the Broadcasting Technology Research Institute of SARFTV to join the drafting committee for the standardisation of VBI data broadcasting in the PRC. Members of the drafting committee will also form a data broadcasting alliance to assist the setting and implementation of industry standards, make suggestions for and assist administrative authorities to implement the industry rules and regulations.

On 11th January, 2000, the Group completed its corporate reorganisation in preparation for the listing of the Shares on GEM. After the reorganisation, the Company became the holding company of the Group. Details of the corporate reorganisation are set out in the paragraph headed “Corporate reorganisation” in Appendix IV to this prospectus.

STATEMENT OF ACTIVE BUSINESS PURSUITS

The table below sets out the statement of active business pursuits of the Group for the 26-month period immediately preceding the date of this prospectus:

	1/11/97 – 31/12/97	1/1/98 – 30/6/98	1/7/98 – 31/12/98	1/1/99 – 30/6/99	1/7/99 – Latest Practicable Date
SALES	<ul style="list-style-type: none"> Launched VBI data broadcasting PC plug-in board model I 		<ul style="list-style-type: none"> Launched VBI data broadcasting PC plug-in board model II Launched VBI data broadcasting PC plug-in board model III Launched multimedia broadcasting access software version 1 Started to generate income from provision of system integration, technical support and consultancy service Started to generate income derived from data broadcasting subscription 	<ul style="list-style-type: none"> Launched FC data broadcasting PC plug-in board model IV Launched multimedia broadcasting access software version 2 	<ul style="list-style-type: none"> Launched FC data broadcasting PC plug-in board model V Launched multimedia broadcasting access software version 3
<i>Reception modules</i>					
<ul style="list-style-type: none"> PC plug-in board 	480 units	5,659 units	13,416 units	12,714 units	approximately 25,000 units
<ul style="list-style-type: none"> Client base (in terms of sales): <ul style="list-style-type: none"> Retail clients Distributors TV network operators 	0.0% 93.1% 6.9%	0.0% 50.1% 49.9%	28.6% 58.1% 13.3%	10.9% 27.7% 61.4%	approximately 0.6% approximately 72.4% approximately 27.0%
<ul style="list-style-type: none"> Geographical distribution for sales of reception modules (in terms of sales) (Note): <ul style="list-style-type: none"> Northern PRC Northern-eastern PRC Northern-western PRC Eastern PRC Mid-south PRC Southern-western PRC 	84.8% 0.0% 0.0% 1.6% 13.6% 0.0%	14.6% 25.5% 0.0% 31.5% 19.6% 8.8%	44.0% 8.0% 0.0% 31.5% 5.8% 10.7%	43.0% 11.0% 0.5% 36.8% 3.2% 5.5%	approximately 46.6% approximately 11.0% approximately 0.8% approximately 31.0% approximately 6.8% approximately 3.8%
<i>Software</i>	245 sets	1,086 sets	7,741 sets	5,967 sets	approximately 10,000 sets
<i>Income derived from data broadcasting subscription</i>					
<ul style="list-style-type: none"> additional subscribers Total subscribers 	— —	— —	2,653 2,653	687 3,340	approximately 2,460 approximately 5,800
<i>Notes:</i>	<ul style="list-style-type: none"> Northern PRC covers Beijing, Tianjin, provinces of Hebei and Shanxi and Inner Mongolia autonomous region Northern-eastern PRC covers provinces of Liaoning, Jilin and Heilongjiang Northern-western PRC covers provinces of Shaanxi, Gansu, Qinghai, and autonomous regions of Ningxia and Xinjiang Eastern PRC covers Shanghai provinces of Jiangsu, Zhejiang, Anhui, Fujian, Jiangxi and Shandong Mid-south PRC covers provinces of Henan, Hubei, Hunan, Guangdong and Hainan, and Guangxi autonomous region Southern-western PRC covers Chongqing, provinces of Sichuan, Guizhou and Yunnan, and Tibet autonomous region 				

	1/11/97 – 31/12/97	1/1/98 – 30/6/98	1/7/98 – 31/12/98	1/1/99 – 30/6/99	1/7/99 – Latest Practicable Date
STRATEGIC ALLIANCE		<ul style="list-style-type: none"> Began to establish strategic alliance with TV network operators extensively 	<ul style="list-style-type: none"> Continued to establish strategic alliance with TV network operators Signed first cooperative agreement with a cable TV operator to develop FC data broadcasting 	<ul style="list-style-type: none"> Continued to establish strategic alliance with TV network operators 	<ul style="list-style-type: none"> Began to sign cooperative agreements with TV network operators extensively Strategically allied with 8 contents providers
<i>Number of strategically allied TV network operators:</i>					
<ul style="list-style-type: none"> New (with and without cooperative agreements) 	1	10	30	31	31
<ul style="list-style-type: none"> Total (with and without cooperative agreements) 	1	11	41	72	103
<ul style="list-style-type: none"> Under cooperative agreements which provides for sharing of income derived from data broadcasting service subscription 	1	1	2	3	14
MARKETING					
<i>Sales and after sales network</i>	<ul style="list-style-type: none"> Engaged 3 authorised distributors 	<ul style="list-style-type: none"> Engaged a total of 21 authorised distributors 	<ul style="list-style-type: none"> Engaged a total of 39 authorised distributors 	<ul style="list-style-type: none"> Engaged a total of 63 authorised distributors 	<ul style="list-style-type: none"> Engaged a total of 75 authorised distributors Engaged 5 authorised distributors as sales and after sales services representatives of the Group
<i>Promotion activities and marketing campaigns</i>	<ul style="list-style-type: none"> Advertised on TV 	<ul style="list-style-type: none"> Advertised on TV 	<ul style="list-style-type: none"> Advertised on TV and in a newspaper Started to adopt bundle sale scheme to boost sales of PC plug-in board i.e. bundle PC plug-in boards with stock analysis software 	<ul style="list-style-type: none"> Advertised on TV and a newspaper Started to give out free of charge multimedia broadcasting access software with each purchase of PC plug-in board 	<ul style="list-style-type: none"> Advertised on TV and newspaper Debuted the prototype of the multimedia TV set top box in a trade exhibition
<i>Market research</i>	<ul style="list-style-type: none"> Conducted research on demand for real-time stock quotations service based on VBI data broadcasting Reviewed market positioning and pricing policies 	<ul style="list-style-type: none"> Conducted research on the trend of development of cable TV networks and application of data broadcasting 	—	<ul style="list-style-type: none"> Conducted research on the potential of FC data broadcasting 	<ul style="list-style-type: none"> Conducted research on the status of cable TV network operators Conducted research on preferences to contents

	1/11/97 – 31/12/97	1/1/98 – 30/6/98	1/7/98 – 31/12/98	1/1/99 – 30/6/99	1/7/99 – Latest Practicable Date
OPERATION & PRODUCTION					
<i>Transmission modules</i>		<ul style="list-style-type: none"> Implemented first VBI data broadcasting transmission module on Shandong Satellite TV Network Contributed 10 new and free transmission modules for VBI data broadcasting to TV network operators and financial information providers 	<ul style="list-style-type: none"> Contributed 30 new and free transmission modules for VBI data broadcasting to TV network operators 	<ul style="list-style-type: none"> Implemented first FC data broadcasting transmission module on Tianjin Cable TV Network Contributed 31 new and free transmission modules for VBI data broadcasting and 1 free transmission module for FC data broadcasting to TV network operators 	<ul style="list-style-type: none"> Provided 11 new and free transmission modules for FC data broadcasting to TV network operators Contributed 31 new and free transmission modules for VBI data broadcasting to TV network operators
<i>Reception modules</i>	<ul style="list-style-type: none"> Contracted 1 manufacturer for processing/assembly of PC plug-in boards (Note 1) 	<ul style="list-style-type: none"> Contracted 1 manufacturer for processing/assembly of PC plug-in boards (Note 1) 	<ul style="list-style-type: none"> Contracted 3 manufacturers for processing/assembly of PC plug-in boards (Note 2) 		<ul style="list-style-type: none"> Contracted 2 manufacturers for processing/assembly of PC plug-in boards
<ul style="list-style-type: none"> Number of Reception modules produced — PC plug-in boards 	1,000 units	7,000 units	25,000 units	— units	30,000 units
<i>Contents for data broadcasting</i>		<ul style="list-style-type: none"> Provided real-time stock quotations for data broadcasting Teamed up with Tianjin Cable TV Network to produce distance education contents 	<ul style="list-style-type: none"> Provided distance education contents to Tianjin Cable TV Network based on VBI data broadcasting 	<ul style="list-style-type: none"> Provided distance education contents to Tianjin Cable TV Network based on FC data broadcasting Provided contents such as electronic newspapers, shareware and miscellaneous information to Tianjin cable TV Network 	<ul style="list-style-type: none"> Provided contents such as selected contents from the Internet to Tianjin cable TV Network

Notes:

- The manufacturer is an associate of Tiancai University.
- The Group started to engage 2 new manufacturers (to replace another manufacturer being an associate of Tiancai University) during this period, thus the total number of manufacturers in this period (comprise 2 new manufacturers and 1 old manufacturer) is higher than that in the subsequent period.

	1/11/97 – 31/12/97	1/1/98 – 30/6/98	1/7/98 – 31/12/98	1/1/99 – 30/6/99	1/7/99 – Latest Practicable Date
RESEARCH & DEVELOPMENT					
<i>Transmission modules</i>	<ul style="list-style-type: none"> Researched and developed PC-based data broadcasting system 	<ul style="list-style-type: none"> Developed VBI data broadcasting transmission module model I 	<ul style="list-style-type: none"> Started to research and develop FC data broadcasting system Developed VBI data broadcasting transmission module model II 	<ul style="list-style-type: none"> Developed first FC data broadcasting transmission module model I Developed VBI data broadcasting transmission module model III 	<ul style="list-style-type: none"> Invited to attend an industry forum regarding the setting up of industry standards for VBI data broadcasting in the PRC Developed FC data broadcasting transmission module model II Developed VBI data broadcasting transmission module model V
<i>Reception modules</i>	<ul style="list-style-type: none"> Developed VBI data broadcasting PC plug-in board model I 		<ul style="list-style-type: none"> Started to research and develop FC data broadcasting system Developed VBI data broadcasting PC plug-in board model II Developed VBI data broadcasting PC plug-in board model III 	<ul style="list-style-type: none"> Developed FC data broadcasting PC plug-in board model IV Started to research and develop TV set top boxes 	<ul style="list-style-type: none"> Developed FC data broadcasting PC plug-in board model V Developed financial TV set top box model I Developed multimedia TV set top box model I
<i>Software</i>		<ul style="list-style-type: none"> Researched and developed distance education software based on data broadcasting 	<ul style="list-style-type: none"> Developed multimedia broadcasting access software version 1 	<ul style="list-style-type: none"> Developed multimedia broadcasting access software version 2 	<ul style="list-style-type: none"> Developed multimedia broadcasting access software version 3
<i>Contents for data broadcasting</i>		<ul style="list-style-type: none"> Developed real-time stock quotations system for data broadcasting 	<ul style="list-style-type: none"> Developed distance education contents for VBI data broadcasting 	<ul style="list-style-type: none"> Developed distance education contents for FC data broadcasting 	
PURCHASES & SUPPLIES					
<i>Transmission modules</i>	<ul style="list-style-type: none"> Purchased parts and components from 1 hardware dealer 	<ul style="list-style-type: none"> Purchased parts and components from 1 hardware dealer 	<ul style="list-style-type: none"> Purchased parts and components from 1 hardware dealer 	<ul style="list-style-type: none"> Purchased parts and components from 1 hardware dealer 	<ul style="list-style-type: none"> Purchased parts and components from 3 hardware dealers
<i>Reception modules</i>	<ul style="list-style-type: none"> Purchased parts and components from 13 distributors 	<ul style="list-style-type: none"> Purchased parts and components from 18 distributors 	<ul style="list-style-type: none"> Purchased parts and components from 22 distributors 		<ul style="list-style-type: none"> Purchased parts and components from 20 distributors
<i>Software</i>	<ul style="list-style-type: none"> Acquired software from 3 software suppliers for resale 	<ul style="list-style-type: none"> Acquired software from 3 software suppliers for resale 	<ul style="list-style-type: none"> Acquired software from 3 software suppliers for resale 	<ul style="list-style-type: none"> Acquired software from 3 software suppliers for resale 	<ul style="list-style-type: none"> Acquired software from 3 software suppliers for resale
<ul style="list-style-type: none"> <i>Number of Stock analysis software purchased</i> 	316 sets	1,251 sets	7,908 sets	6,019 sets	approximately 10,000 sets

1/11/97 – 31/12/97

1/1/98 – 30/6/98

1/7/98 – 31/12/98

1/1/99 – 30/6/99

1/7/99 – Latest Practicable Date

SOURCING OF CONTENTS

- Acquired education contents for 7 subjects for each of the 6 grades of secondary education
- Continued to acquire education contents for secondary education
- Sourced contents such as electronic newspapers, shareware and selected contents from the Internet
- Sourced contents such as electronic newspapers, shareware and selected contents from the Internet

INTELLECTUAL PROPERTY RIGHT

- Strategically allied with 4 content providers
- Applied for patent for multimedia TV set top boxes

CORPORATE DEVELOPMENT

- Established Tiancai Network

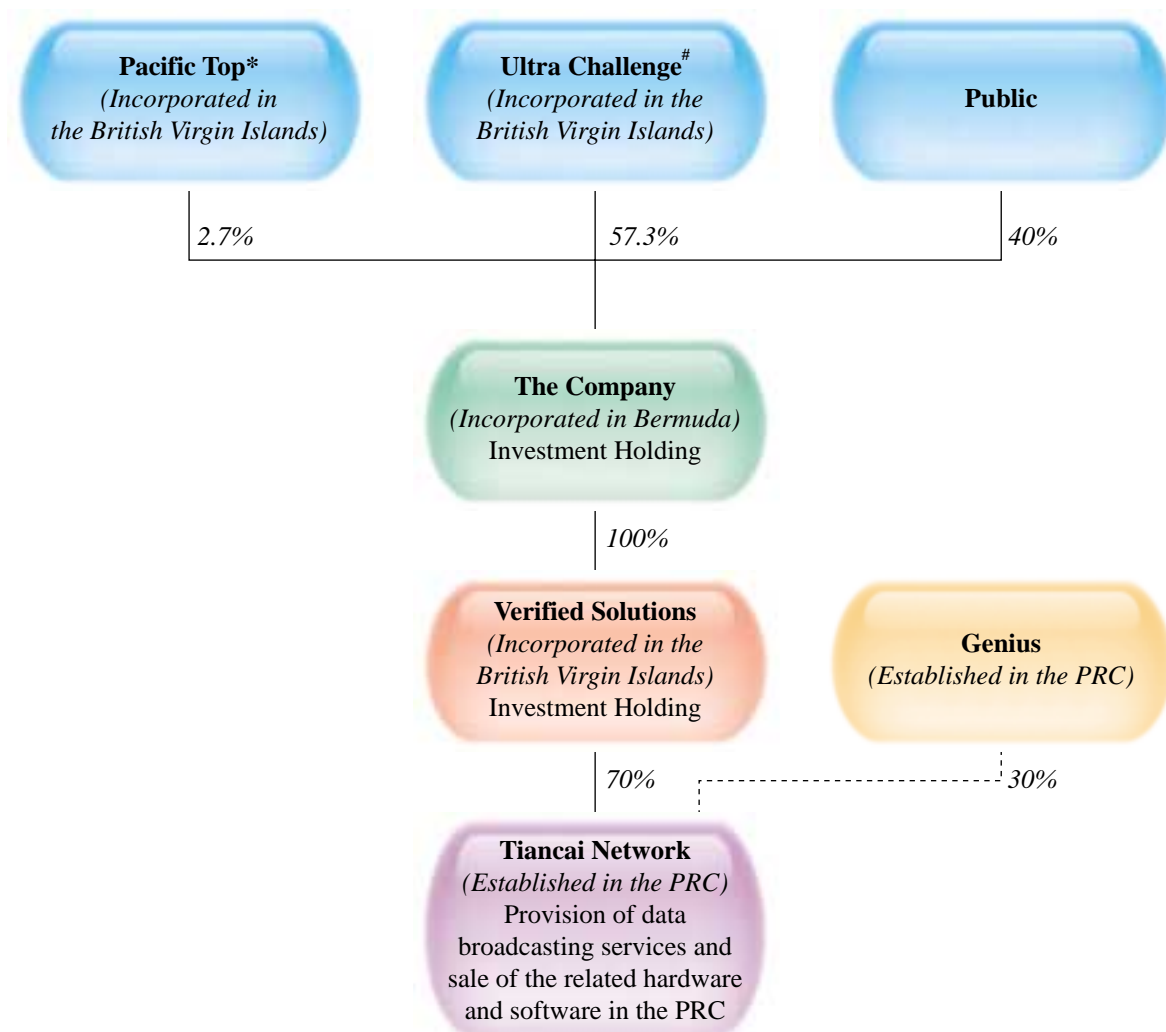
HUMAN RESOURCES

<i>Management</i>	1	1	3	3	3
<i>Research & development</i>					
• Hardware	2	3	4	4	6
• Software	2	5	7	9	12
<i>Information Services</i>	0	4	27	15	15
<i>Sales & marketing</i>	1	5	8	10	11
<i>Finance & administration</i>	0	0	0	0	6
<i>Total headcount</i>	6	18	49	41	53

BUSINESS

GROUP STRUCTURE

The shareholding structure of the Company (assuming that the Over-allotment Option is not exercised), and the structure of the Company and its principal operating subsidiaries and their respective principal activities immediately after the listing of the Shares on GEM will be as follows:



Notes:

The shares in Ultra Challenge are held by HSBC International Trustee Limited on trust for Mr. Dong Jian Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong (all being executive Directors), and Mr. Tang Bin, Mr. Wang Guangxin, Mr. Zhang Renli, Mr. Li Jiancheng, Ms. Yue Shishuang, Mr. Li Yongchao, Mr. Sun Lianwen, Mr. Ji Songqiao and Ms. Cai Zhipei (all being employees of the Group), each of which, including Ultra Challenge, is deemed to be a Management Shareholder. Details of the beneficial interests in the property of the trust is set out in the section headed “Management Shareholders” under “Substantial and Management Shareholders”.

* Pacific Top is a fellow subsidiary of Oriental Patron and it will be allotted the Remuneration Shares, representing 2.7% interest in the Company immediately after the listing of the Shares on GEM (assuming the Over-allotment Option is not exercised) for the services rendered by Oriental Patron as referred to in the Placing Agreement.

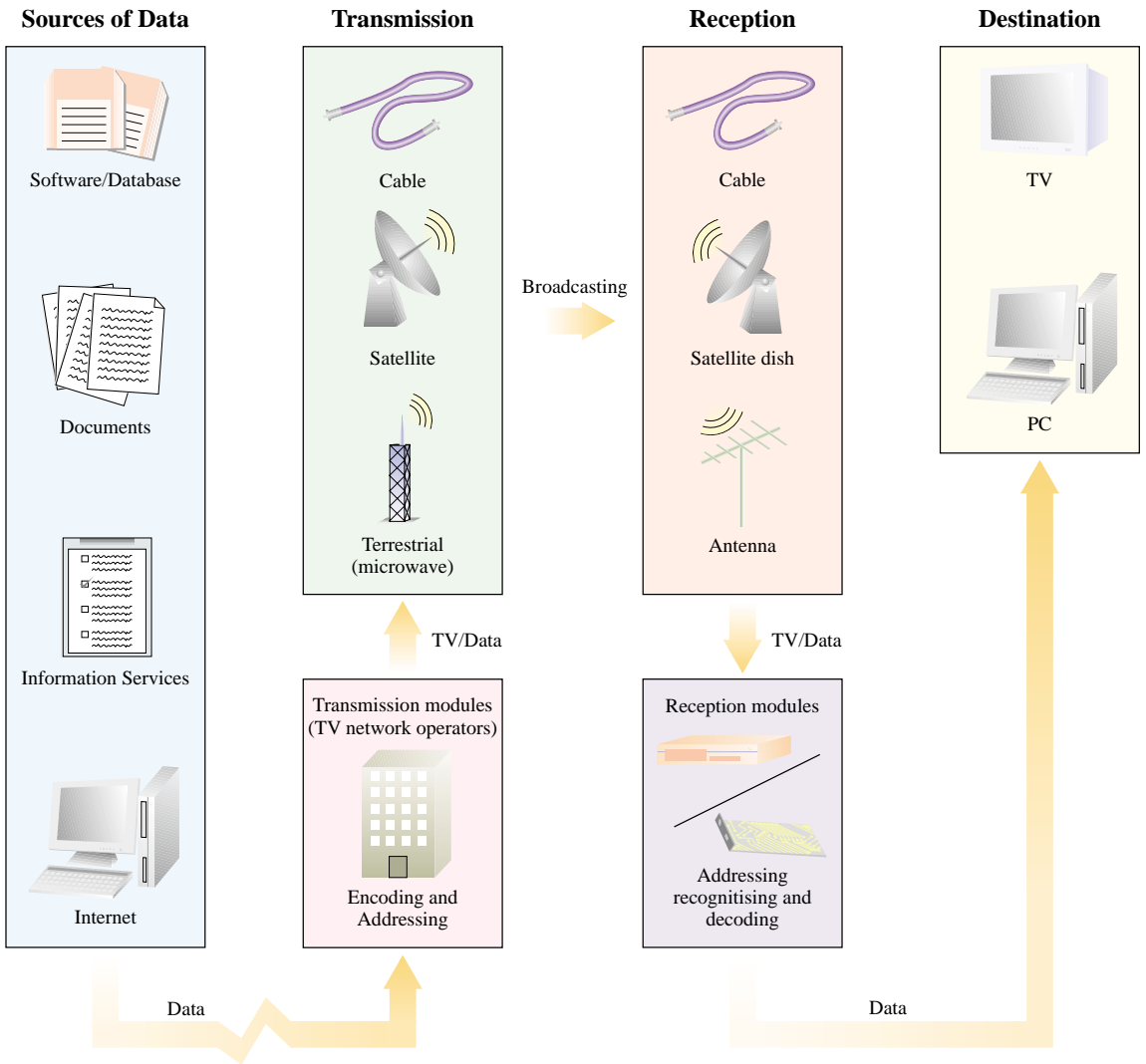
DESCRIPTION OF BUSINESS

The Group is principally engaged in the business of data broadcasting in the PRC and its main activities include the research, development and sale of data broadcasting hardware and software, the related system integration, technical support and consultancy service, the planning, sourcing and production of multimedia contents for data broadcasting, and the sale of software. The Group currently conducts its business in the PRC only.

Data broadcasting adopts technologies of transmitting digital data over terrestrial, cable or satellite TV networks via analog TV signals broadcasting. Its point-to-multi-point transmission characteristic enables large chunks of data to be transmitted swiftly and simultaneously to a large number of subscribers. VBI data broadcasting uses the vertical blanking interval of a TV channel and FC data broadcasting uses a full TV channel. FC data broadcasting is evolved from the VBI data broadcasting and their data transmission rates can be up to 5Mbps and 256Kbps respectively. Data broadcasting system facilitates the transmission of a wide range of multimedia information through existing TV networks, without interfering with TV pictures. Text, pictures, graphics, audio and even video signals can all be encoded in analog TV signals and transmitted by means of TV broadcasting. Reception modules are needed for receiving and decoding data broadcasting signals and they currently take the form of PC plug-in boards or TV set top boxes. The contents are continuously and repeatedly broadcast by TV network operators in cycles. Such contents are updated regularly depending on the nature of the contents. Real-time stock quotations are updated almost instantly. A PC equipped with the plug-in board or a TV connected to the set top box can transparently, continuously and automatically receive, decode and store contents thus avoiding the bottleneck of Internet or congested telephone lines. Users may receive, decode and store contents according to the menu shown on the PCs or TVs as and when they wish to. Since the contents are repeatedly transmitted, users can store the contents any time by switching on the reception modules. Such contents are either stored on the hard disks of PCs or the TV set top boxes. Storage capacity required depends on the amount of contents the users wish to store in the PCs or TV set top boxes. The Group's data broadcasting system provides an interactive environment where the users could browse and receive previously downloaded information, entertainment, software and other contents with virtually no time constraint.

Data broadcasting technology has also been employed in other developed countries but the detailed technology involved in a particular country may vary according to local requirements such as TV signal standards and Teletext standards. However, the application and implementation of data broadcasting are considered newly developed technologies in the PRC. The data broadcasting technology developed by the Group is tailored for the TV signal standard and Teletext standard in the PRC.

The following diagram illustrates how data broadcasting works:



The major performance characteristics of data broadcasting are summarised below:

Point-to-multi-point transmission

Data can be received where the TV signal reaches. The marginal cost of transmitting data to each additional reception point or subscriber is virtually zero. This inherent leverage offers significant cost savings when multiple reception points are involved.

Simultaneous delivery

Data broadcasting offers simultaneous delivery to all subscribers and reception points. Telecommunication-based systems can only transmit data to one reception point at a time without duplicate hardware.

Broad geographical reach

According to “Cable TV in the PRC” dated 15th September, 1999 by an officer of CNNIC, cable TV is the most pervasive communication tool in the PRC with the highest household coverage.

Output device

PCs and TVs receive data with different reception modules.

One-way transmission

Data broadcasting is a one-way transmission system. It offers a cost effective solution for applications which principally support one-way data transmission. However, applications with the majority of data transmitted in one direction and low return volume can adopt a hybrid system comprising a data broadcasting system which carries the bulk of data one-way and a modem link which carries limited data the other way.

The major sources of the Group’s revenue include the sales of reception modules and software and income derived from data broadcasting service subscription.

Since the establishment of the Group in January 1997, the Group has developed from a data broadcasting project team with six staff members to a well-structured organisation with 53 staff members, comprising one general manager, two deputy general managers, 18 research and development staff members as at the Latest Practicable Date.

PRODUCTS AND SERVICES

The Group provides the following products and services:

Transmission modules for data broadcasting

- products developed by the Group which support VBI and both FC & VBI data broadcasting respectively;
- includes information management platforms, user management platforms, transmission management platforms and transmission platforms — capable of aggregating and filtering digital information and embedding the digital data into analog TV signal for transmission;
- adopts open architecture to enhance compatibility with reception modules of other suppliers; and
- are contributed free-of-charge or provided to strategically allied TV network operators.

Reception modules for data broadcasting

- products developed by the Group which support VBI and both FC & VBI data broadcasting respectively;
- decodes digital data embedded in analog TV signals;
- adopts open architecture to enhance compatibility with transmission modules of other suppliers;

BUSINESS

- takes the form of PC plug-in boards (for VBI or both FC & VBI data reception) and TV set top boxes (for VBI or both FC & VBI data reception) to be used with PCs and TVs respectively to form a reception platform; and
- are sold under the “天財” trademark licensed from Genius.

Provision of contents for data broadcasting

- includes distance education contents, real-time stock quotations, electronic newspapers and magazines, music, shareware and other contents from Internet;
- organises and transforms outsourced information to data broadcasting formats; and
- is provided to strategically allied TV network operators for data broadcasting in the PRC.

Software

- includes distance education access software and other application software for TV set top boxes developed by the Group, and outsourced stock analysis software; and
- complements the Group’s reception modules and is mainly sold as a package with the Group’s reception modules to help promote the sales of its reception modules or, in respect of other applications software for TV set top boxes, pre-installed in the TV set top boxes.

System integration, technical support and consultancy service

- includes system integration, technical support and consultancy service.

All the new models of transmission and reception modules adopt more advanced data broadcasting technology or different applications and specifications as compared to their respective older models.

BUSINESS

A breakdown of the Group's turnover by major product and service categories during the Track Record Period is set out below:

	Year ended 31st December,				6 months ended	
	1997		1998		30th June, 1999	
	\$'000	%	\$'000	%	\$'000	%
Turnover (Note 1)						
Reception modules (Note 2)	190	64.8	5,841	80.1	3,636	84.1
Software (Note 3)	103	35.2	1,053	14.4	439	10.2
Income derived from data broadcasting service subscription	—	—	399	5.5	243	5.6
Others (Note 4)	—	—	1	0.0	6	0.1
	<u>293</u>	<u>100.0</u>	<u>7,294</u>	<u>100.0</u>	<u>4,324</u>	<u>100.0</u>

Notes:

1. Turnover represents the invoiced value of goods sold and services rendered, net of value-added tax, business tax and government surcharges, and after allowances for goods returned and trade discounts.
2. Reception modules include PC plug-in boards.
3. Software includes distance education access software and stock analysis software.
4. Others include system integration, technical support and consultancy service.

PRICING

The following table sets out the average prices or service fees of the Group's major products and services during the Track Record Period:

	Year ended 31st December,		6 months ended
	1997	1998	30th June, 1999
	\$	\$	\$
Average prices/service fees (exclusive of value-added tax)			
Reception module			
PC plug-in board (per unit)	398	308	287
Software			
Stock analysis software (per set)	420	119	73
Distance education access software (per set)	—	236	63
Data broadcasting service subscription fee (per subscriber) (Note)	—	161	376

Note: Annual fee for each subscriber, which is to be shared with the relevant TV network operator. The data broadcasting service subscription fee mainly comprises subscription fee for the provision of stock quotation and distance education contents.

The Group and Tianjin Cable TV Network co-operate to provide stock quotation to the subscribers in return for subscription fees. Tianjin Cable TV Network is responsible for obtaining the stock market information and broadcasting such information to the subscribers through its network. The role of the Group in the process includes (1) providing transmission modules to Tianjin Cable TV Network for broadcasting the stock quotation information to its subscribers (such transmission modules were already provided to Tianjin Cable TV Network at nil consideration in 1998); (2) selling the PC plug-in boards to the subscribers of Tianjin Cable TV Network; and (3) initialising the PC plug-in boards to enable the relevant subscribers to receive the stock quotation broadcast by Tianjin Cable TV Network during the subscription period. Each subscriber to the stock quotation broadcasting service has to pay an annual subscription at the outset which is not refundable unless within 7 days from the subscription date. As the services to be performed by the Group are fully rendered after the initialisation of the PC plug-in boards and there are no more act that need to be performed by the Group and no more costs are to be incurred by the Group in respect of such services, the Group considers that the relevant subscription fees have been earned at the time when the initialisation process is completed which usually is very close to the date of receipt of such service fees. As the number of subscribers increased at a decreasing rate during the six months ended 30th June, 1999 following months after the launch of data broadcasting service, the number of new subscribers generating revenues was smaller in the six months ended 30th June, 1999 than in the year ended 31st December, 1998. As such, the annual average subscription fee per subscriber increased at a higher rate than the income derived from data broadcasting service subscription for the six months ended 30th June, 1999.

The subscription fees received by the Group in respect of the distance education contents were immaterial during the Track Record Period.

The significant decline in the average price of PC plug-in boards from \$398 per unit in 1997 to \$308 per unit in 1998 and a further drop to \$287 per unit in first half of 1999 were largely a result of the Group's pricing and marketing strategies to increase the price competitiveness and the market share of the Group's PC plug-in boards. Such strategies increased the Group's sale of PC plug-in board for the last month in 1997 from 480 units to 19,075 units in 1998 and 12,714 units in the first half of 1999.

Since the second half of 1998, with economies of scale, the Group was able to launch four new models of PC plug-in boards at a lower price without sacrificing its gross profit margin.

During the year ended 31st December, 1998, the purchase cost of stock analysis software decreased substantially as a result of the keen market competition and unauthorised duplication in the PRC. The price of the Group's stock analysis software decreased at a lower rate than its purchase cost, resulting in an increase in gross margin. Since July 1998, the Group has also launched a marketing scheme to boost the sales of PC plug-in boards. Under the marketing scheme, the PC plug-in boards are sold together with the stock analysis software and the stock analysis software was sold at a discount and virtually at cost in the first half of 1999.

As a result of the change in the Group's marketing strategies, there is a significant drop in the average price of the distance education access software in the first half of 1999. In order to boost the sales of PC plug-in boards and the subscription for distance education contents, as from March 1999, every purchaser of the PC plug-in board in Tianjin gets a complimentary set of distance education access software.

The significant increase in the annual average subscription fee per subscriber in the first half of 1999 was due to the increase in data broadcasting subscription and the variety of contents subscribed for by each subscriber after the Group launched more distance education contents since March 1999.

PURCHASES AND SUPPLIES

All of the Group's purchases and supplies are sourced in the PRC and mainly comprise the following:

Transmission modules

During the Track Record Period, the Group sourced hardware for its data broadcasting transmission modules from one hardware dealer in the PRC which is not connected with any of the Directors, chief executives and Management Shareholders of the Company or any of their respective associates under the GEM Listing Rules. The Group has had a business relationship with this hardware dealer for more than one year. The Directors consider that the Group's relationship with its supplier is good and the Group has not experienced any major difficulty in sourcing hardware components for the Group's production. Further, the Directors are aware that there are numerous suppliers or distributors or hardware manufacturers in the market which can provide hardware components for the production of transmission modules and they do not anticipate any difficulty in sourcing hardware components from other suppliers. The Group's purchases of hardware for its data broadcasting transmission modules accounted for approximately 0%, 1.7% and 6.6% respectively of the Group's total purchases for each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999.

All the payments for the Group's purchases of hardware are settled by cash on delivery.

Reception modules*PC plug-in boards*

During the Track Record Period, the Group sourced parts and components for its PC plug-in boards for data broadcasting from over 20 distributors in the PRC which are not connected with any of the Directors, chief executives and Management Shareholders of the Company or any of their respective associates under the GEM Listing Rules. The Group has had a business relationship with these distributors for one to more than two years. The Directors consider that the Group's relationship with these distributors is good.

Before the establishment of Tiancai Network, the Group did not have the rights under PRC law to import parts and components required for production of the Group's reception modules and all such parts and components had to be sourced from local distributors. The Group has experienced some difficulties in sourcing hardware components for the production of its PC plug-in boards before the establishment of Tiancai Network which was mainly attributable to inadequate supplies from local distributors. As a result of the establishment of Tiancai Network, the Group can source such hardware components from overseas suppliers directly. Accordingly, the Directors do not anticipate any difficulty in obtaining supply of such parts and components for the production of PC plug-in boards in the future.

The Group's purchases of parts and components for its PC plug-in boards for data broadcasting accounted for approximately 71.4%, 87.7% and 22.7% respectively of the Group's total purchases for each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999. The costs of parts and components for the Group's PC plug-in boards represented approximately 93.3% and 90.5% of the total costs of producing PC plug-in boards for each of the two years ended 31st December, 1998. The Group did not produce any PC plug-in boards during the six months ended 30th June, 1999 as it has a sufficient inventory.

The payments for the Group's purchases of parts and components for its PC plug-in boards are denominated in RMB and are primarily made on an open account basis with credit terms ranging from 7 days to 30 days.

TV set top boxes

The Group intends to launch its financial TV set top boxes and multimedia TV set top boxes in late January 2000 and February 2000 respectively. The Directors currently expect to source parts and components for its TV set top boxes from about 7 suppliers in the PRC which are not connected with any of the Directors, chief executives and Management Shareholders of the Company or any of their respective associates under the GEM Listing Rules. As a result of the establishment of Tiancai Network, the Group can also source such hardware components from overseas suppliers. Accordingly, the Directors do not expect any difficulty in sourcing the same for the production of TV set top boxes in the future.

In the future and if necessary, the Group may require foreign exchange for the purchase of parts and components for its products, including PC plug-in board and TV set top box, directly from overseas suppliers.

Software

During the Track Record Period, the Group purchased software from three software suppliers, for resale to retail customers either alone or as a package together with the Group's PC plug-in boards for data broadcasting. For each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999, the largest software supplier accounted for approximately 85.3%, 66.5% and 77.1% respectively of the Group's total purchases of software and the Group's total purchases of software accounted for 28.6%, 10.6% and 70.7% of the Group's total purchases cost. The third largest software supplier for the year ended 31st December, 1997 and the largest software supplier for the year ended 31st December, 1998 and the six months ended 30th June, 1999 is a 51%-owned subsidiary of Genius and is deemed to be a connected person of the Company under the GEM Listing Rules. The Directors confirm that the Group's purchases of software from the Genius Group were conducted in the ordinary and usual course of business of the Group and on normal commercial terms as defined in the GEM Listing Rules. Save for the above, none of the Directors, chief executives or Management Shareholders of the Company or any of their respective associates is connected with any of the software suppliers for the purpose of the GEM Listing Rules.

Pursuant to an agreement dated 8th January, 2000 between the Group and the Genius Group for a term from 8th January, 2000 to 31st December, 2001, the Group will continue to purchase such analysis software from the Genius Group in the ordinary and usual course of business and on normal commercial terms as defined in the GEM Listing Rules. For details of this continuing connected transaction after the listing of the Shares on GEM, please refer to the paragraph headed "Continuing Connected Transactions" below.

The Directors believe that the stock analysis software will complement the reception modules for data broadcasting and will help promoting the sales of its reception modules.

The payments of the Group's purchases of software are made primarily on an open account basis with credit terms ranging from 10 days to 30 days.

During the Track Record Period, all the Group's purchases were settled in RMB.

For each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999, the Group's largest supplier accounted for 32.5%, 46.8% and 54.5% respectively of the Group's total purchases (of parts and components for reception modules, hardware for transmission modules, and stock analysis software) and the five largest suppliers accounted for approximately 83.7%, 69.1% and 97.3% respectively of the Group's total purchases. Save for the Genius Group, the second largest and the largest supplier of the Group for the year ended 31st December, 1998 and the six months ended 30th June, 1999 respectively, none of the Directors, chief executives or Management Shareholders of the Company nor any of their respective associates is connected with any of the five largest suppliers for each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999 under the GEM Listing Rules.

SOURCING OF CONTENTS FOR DATA BROADCASTING

As at the Latest Practicable Date, the Group's department of information services consists of 15 staff members and is responsible for the planning and sourcing of contents for data broadcasting. The department gathers or acquires contents from various contents providers including reputable teachers, electronic newspapers and magazines, financial information providers and the Internet.

During the Track Record Period, the Group sourced contents for data broadcasting from over 10 contents providers in the PRC which are not connected with any of the Directors, chief executives or Management Shareholders of the Company or any of their respective associates under the GEM Listing Rules. The Group had not commenced provision of contents for data broadcasting during the year ended 31st December, 1997. For the year ended 31st December, 1998 and the six months ended 30th June, 1999, the largest content provider accounted for approximately 16.3% and 16.2% respectively of the costs for sourcing of contents for data broadcasting and the five largest content providers accounted for 78.8% and 78.3% respectively of the costs for sourcing of contents for data broadcasting.

The Directors are aware that there are numerous content providers in the market and they do not expect any difficulty in sourcing contents for data broadcasting. For the year ended 31st December, 1998 and the six months ended 30th June, 1999, the Group expensed approximately 3.0% and 13.8% of the Group's total turnover for sourcing of contents for data broadcasting and the costs for sourcing of contents for data broadcasting were approximately 3.8% and 15.2% respectively of the Group's total cost of sales.

The payments for the Group's sourcing of contents for data broadcasting are made primarily on an open account basis with credit terms ranging from 15 days to 45 days.

MANUFACTURING/PRODUCTION

It is the Group's strategy to contract with outside manufacturers to complete the low value-added and capital intensive processes in producing its reception modules for data broadcasting.

Reception modules

PC plug-in boards

During the Track Record Period, the Group entered into contracts with three manufacturers for the processing and assembly of its PC plug-in boards. Due to the Group's relatively small production volume, it would not be economical to spread the Group's processing and assembly orders to a number of manufacturers. As such the Group's largest manufacturer, Tianjin University Wireless Factory

(天津大學無線電廠), an associate of Tianjin University, accounted for approximately 100% and 84.3% respectively of the total manufactures and production cost of the Group for each of the two years ended 31st December, 1998. These three manufacturers are not connected with any of the Directors, chief executives or Management Shareholders of the Company or any of their respective associates under the GEM Listing Rules.

The Group has not experienced any difficulty in the processing and assembly of its PC plug-in boards. Since December 1998 and up to the Latest Practicable Date, the Group no longer contracted its processing and assembly work to the above mentioned largest manufacturer but engaged other manufacturers who offered more favourable or comparable terms to undertake such processing and assembly work. There are numerous manufacturers capable of processing and assembling PC plug-in boards in the market and the Directors do not expect any difficulty in engaging other manufacturers in the future. The costs of processing and assembling PC plug-in boards represented approximately 6.3% and 6.7% of the total costs of producing PC plug-in boards for each of the two years ended 31st December, 1998. The Group did not produce any PC plug-in boards during the six months ended 30th June, 1999.

TV set top boxes

The Group will contract the processing and assembly of its financial TV set top boxes to Genius. Pursuant to an agreement dated 8th January, 2000 between the Group and Genius, the Group will, during the period from 8th January, 2000 to 31st December, 2001, place orders with Genius in accordance with its production plans for processing and assembly of its financial TV set top boxes (which currently adopt VBI data broadcasting) and multimedia TV set top boxes (which adopt both FC and VBI data broadcasting). As Genius is deemed to be a connected person of the Company, such processing and assembly arrangements in relation to the TV set top boxes constitutes a connected transaction of the Company under the GEM Listing Rules. For confidentiality reasons, the Group decided to contract only with the Genius as the Group considers Genius to be more reliable in terms of protection of proprietary technology and design in respect of the TV set top boxes owned by the Group by virtue of its substantial interest in Tiancai Network. For details of this TV set top box processing agreement after the listing of the Shares on GEM, please refer to the section headed “Continuing Connected Transactions” below.

Contents for data broadcasting

The Group’s department of information services is responsible for the production of contents for data broadcasting.

Since September 1998, the Group has been producing distance education contents for its data broadcasting services. The Group acquires materials in respect of the relevant curricula or disciplines from reputable teachers in the PRC and transforms them into web page format. The contents so produced by the Group will be updated regularly. To date, the Group has developed distance education contents for seven subjects for each of the six grades of secondary education. With the introduction of FC data broadcasting technology which has a faster transmission rate and a higher transmission capacity than VBI data broadcasting, the Group are able to produce distance education contents with more multimedia features. It is the Group’s plan to produce distance education contents for primary education, further education and professional examinations in the future.

The cost of producing contents for data broadcasting amounted to approximately 2.8% and 5.5% respectively of the Group’s total costs of sales respectively for the year ended 31st December, 1998 and the six months ended 30th June, 1999.

The department of information services also transforms outsourced information such as electronic newspapers and magazines, music, shareware and other materials from Internet into web-page format for data broadcasting.

QUALITY CONTROL

The Group places great emphasis on the quality control of its products. The Group carefully selects its suppliers and subcontracting manufacturers, the outsourced software and the parts and components that meet industrial standards for its hardware. In addition, the Group's research and development department adopts the following quality control measures:

- attending periodically the production of the subcontracting manufacturers;
- assisting subcontracting manufacturers in training their relevant staff;
- providing technical support and consultancy service to subcontracting manufacturers;
- setting detailed specifications and quality standards for subcontracting production; and
- requiring subcontracting manufacturers to inspect their products before delivery.

The Group will perform extensive testing and trial runs before launching the software developed by the Group.

For each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999, the aggregate value of defective goods returned for repair amounted to less than 0.1% of the Group's turnover respectively.

SALES AND MARKETING

The Group's income is mainly derived from sales of reception modules for data broadcasting and software and sharing of income derived from data broadcasting service subscription with TV network operators in the PRC. All sales revenue of the Group are invoiced and settled in RMB.

The Group sells all of its reception modules for data broadcasting and the relevant software in PRC. For the year ended 31st December, 1998, distributors, TV network operators and end-users accounted for 55.9%, 23.6% and 20.5% of the Group's total sales revenue respectively. For each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999, the largest customer accounted for 87.0%, 10.0% and 11.0% of the Group's total sales and the five largest customers accounted for approximately 100%, 30.3% and 41.7% of the Group's total sales revenue. None of the Directors, chief executives and Management Shareholders of the Company or any of their respective associates is connected with any of the above five largest customers under the GEM Listing Rules.

Based on the size of the orders of each distributor or TV network operator, the Group's sales team will assess the potential sales capacity of the distributor or the TV network operator and determine its ranking and the price offered. During the Track Record Period, approximately 82.2% of the Group's sales of reception modules for data broadcasting and the relevant software were settled by cash on delivery or advance payment while the remaining 17.8% were settled on open accounts with credit terms ranging from 7 days to 30 days. During the Track Record Period, the Group did not record any bad debt.

During the Track Record Period, all of the Group's operating income derived from data broadcasting service subscription was attributed to the sharing of data broadcasting service subscription with the Tianjin Cable TV Network which is independent of any of the Directors, chief executive and Management Shareholders of the Company or any of their respective associates under the GEM Listing Rules.

Pursuant to the relevant cooperative agreement dated 13th November, 1998 between the Group and Tianjin Cable TV Network, for a term of 5 years, the Group provided the transmission modules for FC data broadcasting, the distance education contents and the relevant technical support to Tianjin Cable TV Network while Tianjin Cable TV Network provided the necessary broadcasting channels and some hardware equipment. Both parties agreed to share the relevant operating and advertising cost and income derived from data broadcasting service subscription. In addition, the Group entered into cooperative agreements with two other TV network operators in December 1998 and January 1999 respectively with a view to exploring opportunity of generating and sharing income derived from data broadcasting service subscription.

Having acquired the relevant knowledge and experience in establishing strategic alliance with TV network operators, the Group started to speed up its expansion plan to share income from data broadcasting service subscription and entered into agreements with 11 TV network operators during the period from September 1999 up to the Latest Practicable Date. The Group provides transmission modules for data broadcasting and the TV networks operators provide the necessary channels for data broadcasting. The Group and each TV network operator agreed to share the income derived from data broadcasting service subscription at an agreed ratio or amount. The terms of these agreements range from one year to ten years.

At present, the Group's sales team consists of 11 marketing personnel. The Group's sales team is responsible for analysing market and product trends, customer relations, sales procurement, liaison and cooperation with distributors and TV network operators, handling customers' enquiries and providing basic technical supports and after-sales services to customers. The Group also engages 75 authorised distributors to sell its products and perform after sales services such as installation, technical support and goods reports in regions where cable TV network operators have presence. To cope with the expansion of the Group's data broadcasting services, the Group has engaged five authorised distributors as its sales and after-sales representatives in Hangzhou, Nanjing, Chongqing and Zhengzhou respectively so as to further strengthen its after-sales services and its relationship with customers and distributors and/or dealers. The Group plans to engage more sales and after-sales representatives in other major cities in the PRC.

The Group promotes its data broadcasting products through advertisement on TV, press and magazines. The Group also exhibited its products and services in various industry exhibitions to increase its market presence. For each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999, the Group expended approximately 0%, 0.7% and 0.7% of the Group's total sales revenue for the relevant periods on advertisement respectively. The Directors believe that the Group's strategic alliance with various TV network operators can reduce considerably the Group's advertising cost.

RESEARCH AND DEVELOPMENT

As at the Latest Practicable Date, the Group's research and development department comprises 18 employees representing 34.0% of the Group's total headcount. Among the Group's 18 research and development staff, there are two Ph.D. degree holders, three Master's degree holders and 12 Bachelor's degree holders. The research and development department is organised into the software

team and the hardware team and is responsible for developing information services related technology and designing and developing relevant hardware and software based on the market and product trend analysis conducted by the Group's sales team.

Subsequent to the marketing of its VBI data broadcasting technology, the Group has developed the FC data broadcasting technology. Based on the VBI and the FC technologies, the Group has developed and launched various products/merchandises, including transmission modules for VBI and FC data broadcasting, PC plug-in boards for VBI and both FC and VBI data broadcasting, TV set top boxes for VBI and both FC and VBI data broadcasting, multimedia data broadcasting platforms and a number of relevant system software. It is the Group's strategy to develop products of open architecture which are compatible with products of other suppliers to facilitate market penetration thereby setting the industry standard.

The Group's research and development department has been engaged in the development of TV set top boxes for FC data broadcasting to cater for non-PC users. The Group intends to market its financial TV set top boxes and multimedia TV set top boxes in late January 2000 and February 2000 respectively.

For each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999, the Group has expended approximately 63.3%, 3.7% and 3.7% of its total turnover on research and development respectively.

INTELLECTUAL PROPERTY

The Group relies upon patents, copyrights, trademarks and trade secret laws and will also rely upon confidentiality and nondisclosure agreements and other measures to establish and protect its proprietary rights to its technologies, products and services.

The Group applied for a patent for the utility model of the multimedia TV set top box for FC data broadcasting from State Intellectual Property Bureau (中國知識產權局) in the PRC in July 1999. The patent application is being processed. To the best knowledge of the Directors, the Group has not infringed any other registered patent in the PRC. Therefore, the Group's data broadcasting technologies are not subject to any limitation prior to the completion of the application for the patent. Save for the above, the Group has not applied for patents for its other products, as similar products have already been launched by the Group or other producers in the PRC.

In addition, pursuant to a licence agreement dated 8th January, 2000 between Genius and Tiancai Network, Genius has granted to Tiancai Network the right to use the “天財” trademark for its business free of charge for so long as Genius holds 20% or more interest in Tiancai Network. The Group's products have long been marketed under the “天財” trademark and have already built up a reputation in the industry. As such, the Directors believe that it is beneficial to the Group to continue to use such trademark.

Save for the above, the Group has not obtained or applied for any other patent or licence for its technologies, products and services. For details of the risk in respect of the Group's patents and proprietary rights, please refer to the section headed “Risk factors” of this prospectus.

STRATEGIC ALLIANCE

Since the number of data broadcasting service subscribers is crucial to the Group's success, it is the Group's strategy to establish relationships with various TV network operators to secure broadcasting networks for its future development before the data broadcasting market takes off. As at the Latest Practicable Date, the Group has established strategic alliance with 103 TV network operators nationwide. Of the 103 strategically allied TV network operators, the Group contributed free transmission modules for VBI or FC data broadcasting and technical supports to 89 TV network operators and assisted them in sourcing content providers, namely real-time stock quotation providers, and the TV network operators purchased or procure purchases of PC plug-in boards for VBI and/or FC data broadcasting from the Group. Under such strategic alliance, the Group and the TV networks operators are not contractually restricted from engaging in strategic alliance with other parties within the relevant region.

During the period from November 1997 to January 1999, the Group started to explore opportunities to derive recurring subscription income and entered into cooperative agreements with three other cable TV network operators to share with them the income derived from data broadcasting service subscription.

Having acquired the relevant knowledge and experiences from the cooperation with these TV network operators, the Group started to establish strategic alliance and enter into relevant cooperative agreements with TV network operators extensively. During the period from September 1999 up to the Latest Practicable Date, the Group has entered into new cooperative agreements with 11 TV network operators in the PRC with terms ranging from one to ten years to develop VBI and/or FC data broadcasting business and to share with them the income derived from data broadcasting service subscription. The Group provided the transmission modules for VBI and/or FC data broadcasting, the contents for data broadcasting and the relevant technical support to the TV network operators and the TV network operators provided the necessary channels for VBI and/or FC data broadcasting. The Group and such TV network operators agreed to share the income derived from data broadcasting service subscription at an agreed ratio ranging from 40% to 60% or for an agreed amount. These cooperative agreements usually contain provisions restricting the parties from entering into similar cooperative arrangements with other third parties within the relevant region. Of these 11 TV network operators, 8 had previously established strategic alliance with the Group and the others were newly allied with the Group. For the newly allied TV network operators, the Group usually contributed free-of-charge VBI data broadcasting transmission modules to them in addition to the provision of FC data broadcasting transmission modules. It is the Group's future strategy to develop FC data broadcasting with existing and new strategically allied TV network operators so that the Group will be able to share the income derived from data broadcasting service subscription and generate income from advertisements.

BUSINESS

The following table shows the breakdown by administrative regions in the PRC of the number of TV network operators strategically allied with the Group as at the Latest Practicable Date:

Provinces, municipalities or autonomous regions	Number of strategically allied TV network operators*		Provinces, municipalities or autonomous regions	Number of strategically allied TV network operators*	
	(i)*	(ii)*		(i)*	(ii)*
	Beijing	1		0	Shandong
Tianjing	2	2	Henan	4	1
Hebei	7	2	Hubei	13	2
Shanxi	2	0	Hunan	1	0
Inner Mongolia	1	0	Guangdong	3	0
Liaoning	8	0	Guangxi	6	1
Jilin	3	0	Chongqing	2	1
Heilongjiang	2	0	Sichuan	6	0
Shanghai	1	0	Guizhou	2	0
Jiangsu	12	1	Yunnan	2	0
Zhejiang	3	1	Shaanxi	1	0
Anhui	8	0	Gansu	1	0
Fujian	3	0	Ningxia	1	0
Jiangxi	2	1	Xinjiang	2	0
Total				<u>103</u>	<u>14</u>

Note:

(i)* Total number of the Group's strategically allied TV network operators in the province, municipality or autonomous region.

(ii)* Number of the Group's strategically allied TV networks operators with which the Group shares income derived from data broadcasting service subscription.

The Group also establishes strategic alliance for sourcing of free contents with 4 content providers, including 2 newspaper publishers (for 6 newspapers) and 2 other information providers. These content providers allow the Group to broadcast the relevant contents free of charge.

COMPETITION

At present, the Directors are aware that there are at least two major competitors engaged in the data broadcasting industry in the PRC, one of which is engaged in the production and sale of VBI data broadcasting PC plug-in boards and close architecture transmission modules for data broadcasting while the other offers close architecture transmission and reception modules for data broadcasting they have developed. So far as known to the Directors, these two competitors are respectively a PRC enterprise and a foreign investment enterprise in the PRC. The Directors are not aware of any published research which reveals the market share of the Group's PC plug-in boards for data broadcasting in the PRC. The Directors believe that the Group has an edge over its main competitors due to the following reasons:

- offering comprehensive data broadcasting services, which comprise the provision of data broadcasting systems (including transmission and reception modules), system integration, technical support, multimedia contents and programs and ongoing data broadcasting consultancy services;
- provision of a wide range of products and services including PC plug-in boards, TV set-top boxes and contents such as multimedia distance education contents, real-time stock quotations, electronic newspapers and magazines, music, shareware and other contents from the Internet, which enlarge its target customer base and diversify its earning base;
- adoption of open architecture for its products, which enhances compatibility of its transmission and reception modules with other suppliers' products so as to facilitate market penetration thereby setting the industry standards;
- its diversified sources of income;
- its strategic alliance with 103 TV networks operators including the 14 TV network operators which have entered into cooperative agreements with the Group for sharing of income derived from data broadcasting service subscription, facilitates the expansion of the Group's business and enlarges the Group's earning base;
- its strong research and development capabilities which give the Group an edge over its competitors in the development and implementation of its data broadcasting business in the PRC;
- its good reputation and established brand awareness in the data broadcasting industry; and
- its close ties with Tianjin University which facilitate the recruitment of high-calibre research and development professionals.

Data broadcasting technology has also been employed in other developed countries. Although the Directors currently are not aware of any overseas competitor which competes with the Group in the PRC, companies engaged in the data broadcasting business overseas may enter the PRC market and compete with the Group.

The Group also faces competition from the Internet and electronic information access, processing and distribution businesses. Besides, the Directors are aware that the market is focusing on exploring business opportunities in services provided through the TV networks. Recently, cable TV

networks operators in Shenzhen, Shanghai, Dalian, Qingdao, Suzhou, Nanjing and Guangdong have undergone trial runs in respect of Internet connection, computer networking, video-on-demand, audio-on-demand, e-commerce, IP telephony, videophone and video conferencing.

RELATIONSHIP WITH THE GENIUS GROUP AND TIANJIN UNIVERSITY

The Group emerged from a data broadcasting project team in the Genius Group that focused on the development of data broadcasting technology using TV signals. With a view to rewarding and motivating the research and development professionals and other key personnel involved in the project, the Group underwent a corporate reorganisation in June 1999. After the Reorganisation, such research and development professionals and key personnel, being the staff of Tiancai Network, became, in effect, the staff of the Company through its wholly-owned subsidiary, Verified Solutions, and Genius have become a substantial shareholder of Tiancai Network, holding 30% interest therein.

Genius' major shareholders include Tianjin University and its affiliates which together hold approximately 41.2% interest in Genius as at the Latest Practicable Date. The principal businesses of Genius Group include the development of computer software and hardware, the integration of information systems, information services, the research and development of the integration of optical and electric mechanical technology and chemical packaging materials and related production and sales. Due to its close ties with the Tianjin University, the Group has been able to recruit high-calibre research and development professionals whom the Directors consider attribute to the Group's development. The Directors believe that the Group's future prospects will also rely on its ability to recruit and retain competitive research and development personnel. Given its good relationship with the Genius Group, the Directors believe that the Group will be able to attract high-calibre research and development professionals in the PRC in future.

Genius has, pursuant to a letter of undertaking dated 10th January, 2000, undertaken to Tiancai Network that so far as Genius' interest in Tiancai Network remains not less than 20%, Genius and its subsidiaries will not engage or participate at any time or in any place, either directly or indirectly, in businesses that are the same or similar in nature to the businesses of Tiancai Network, which include transmission modules and reception modules for VBI and FC data broadcasting, distance education contents based on VBI or FC data broadcasting and other information services and all businesses adopting data broadcasting technologies. Genius has also undertaken to indemnify Tiancai Network from and against all losses arising therefrom or in connection therewith.

Genius has not given any undertaking not to dispose of its interest in Tiancai Network.

In addition, the Directors currently envisage the following material transactions with the Genius Group which will continue in the ordinary and usual course of business:

- The Group will continue to lease the existing office premises for its head office in the PRC from Genius. Pursuant to the relevant lease agreement, the lease is for a term commencing on 1st July, 1999 and ending on 31st December, 2001 (both days inclusive) and at a rental inclusive of water and electricity charges, air conditioning and heat charges and management fee. The annual rental for the period from 1st July, 1999 to 31st December, 2000 is approximately RMB171,550 (approximately \$160,327) and the rental for the year ending 31st December, 2001 is subject to review by both parties. Such premises accommodates the management department, the research and development department, the information services department and the sales and marketing department and the finance and administration department of the Group. Please refer to the property valuation report set out in Appendix II to this prospectus for details of the premises and the lease;

- The Group will continue to contract the processing and assembly of its TV set top boxes to Genius, as described further below;
- The Group will from time to time purchase stock analysis software from a 51%-owned subsidiary of Genius, as described further below; and
- Pursuant to a licence agreement dated 8th January, 2000, Genius has granted to Tiancai Network the right to use the “天財” trademark for its business free of charge for so long as Genius holds 20% or more interest in Tiancai Network.

CONTINUING CONNECTED TRANSACTIONS

The Genius Group is deemed to be a connected person of the Company for the purpose of the GEM Listing Rules. Accordingly, any transactions between the Group and the Genius Group subsequent to the listing of the Shares on GEM constitute connected transactions of the Company which, depending on the size of each transaction, may require full disclosure and/or approval of the independent Shareholders at a general meeting.

The Directors advise that the following transactions with the Genius Group will continue in the ordinary and usual course of business of the Group after the listing of the Shares on GEM and would require full disclosure and/or approval of the independent Shareholders in general meeting:

Processing and Assembly of TV set top boxes for data broadcasting (“Set Top Box Transaction”)

Pursuant to a processing agreement dated 8th January, 2000 entered into between Tiancai Network and Genius prior to the listing of the Shares on GEM, Genius will undertake the processing and assembly of the TV set top boxes for data broadcasting for Tiancai Network and provide production and processing services in relation thereto for a term from the date of the agreement to 31st December 2001. The Directors consider that it is beneficial to the Group to outsource the low value-added and capital intensive processing and assembly works. Since the market rates for processing and assembly fees vary from time to time, it is not commercially viable to fix the processing and assembly fees. Instead, pursuant to the processing agreement, the processing fee paid by the Group will be determined at arm’s length and on normal commercial terms or on terms not less favourable than terms that would otherwise be available from independent third parties and at the time the orders are placed as quoted from independent third parties. Further, for confidentiality reasons, the Group has decided to contract only with Genius as the Group considers Genius to be more reliable in terms of the protection of its proprietary technology and design in respect of the TV set top boxes for data broadcasting owned by the Group by virtue of its substantial interest in Tiancai Network.

The aggregate processing fee for the Set Top Box Transaction for each of the two years ending 31st December 2001 is not expected to exceed RMB17,000,000 (approximately \$15,887,850) and RMB31,000,000 (approximately \$28,971,963) respectively and these amounts have accordingly been set as the respective annual caps for the relevant year to which this waiver application (as described below) relates.

Purchase of stock analysis software (“Stock Analysis Software Transaction”)

The Group has from time to time purchased stock analysis software from Beijing Taslon Science & Technology Development Co., Ltd. (“Taslon”), a 51% owned subsidiary of Genius, and sold the same to retail customers either alone or as a package together with the Group’s reception modules for data broadcasting. For the two years ended 31st December 1998 and the six months ended 30th June

1999, the total purchase of stock analysis software from the Genius Group amounted to approximately RMB3,000 (approximately \$2,804), approximately RMB616,000 (approximately \$575,701) and approximately RMB350,000 (approximately \$327,103) respectively, representing approximately 0.65%, 7.0% and 54.5%, respectively of the Group's total purchases.

Pursuant to a purchase agreement dated 8th January, 2000 entered into between Tiancai Network and Taslon, the Group will continue, from time to time during the period from the date of the agreement to 31st December, 2001, to purchase stock analysis software from Taslon at arm's length and on normal commercial terms or on terms not less favourable than terms available to independent third parties as set out in the published price list of Taslon. The terms for each purchase will be determined at the time the relevant orders are placed and the amount involved will only be ascertained then in accordance with the provisions of the purchase agreement. The Directors believe that the sales of the Taslon's stock analysis software will complement and enhance the sales of the Group's reception modules for data broadcasting.

The aggregate purchase of software from Taslon for each of the three years ending 31st December, 2001 is not expected to exceed RMB1,300,000 (approximately \$1,214,953), RMB6,200,000 (approximately \$5,794,393), and RMB8,700,000 (approximately \$8,130,841) respectively and such amounts for each of the two years ending 31st December, 2001 have accordingly been set as the respective annual caps for the relevant year to which this waiver application (as described below) relates.

Waiver in respect of Continuing Connected Transactions

In the opinion of the Directors (including the independent non-executive Directors) and Oriental Patron, the above transactions are in the ordinary and usual course of business, on normal commercial terms, are fair and reasonable and in the interests of the Shareholders as a whole.

The Directors consider that the continuation of the Continuing Connected Transactions subsequent to the listing of the Shares on GEM is beneficial to the Group. As the Continuing Connected Transactions are of a recurring nature and are expected to continue in the future in the ordinary and usual course of business of the Group as defined in the GEM Listing Rules, the obligations to comply with the announcement requirement in full and/or to seek approval of the Shareholders in general meeting from time to time would be impracticable and unduly burdensome. The Company has applied to the Stock Exchange for a waiver from strict compliance with such obligations and in particular that, with regard to the Set Top Box Transaction, the terms of such transaction and the caps need not be the subject of review and re-approval by independent Shareholders in respect of any of the years to 31st December, 2001 merely because the caps exceed the higher of \$10 million and 3 per cent. of the Company's then latest net tangible assets. Such application for a waiver is made on the basis of the following:

- (1) that the Continuing Connected Transactions will be entered into:
 - (i) in the ordinary and usual course of business of the Group as defined in the GEM Listing Rules;
 - (ii) on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms not less favourable than terms available for independent third parties;

BUSINESS

- (iii) in accordance with the relevant agreements on terms that are fair and reasonable so far as the Shareholders are concerned and in the interests of the Shareholders as a whole; and
 - (iv) with the annual aggregate value of each of the Continuing Connected Transactions not exceeding the relevant annual caps as set out above;
- (2) that details of the Continuing Connected Transactions will be disclosed in the Company's annual report and accounts as set out in Rule 20.34 of the GEM Listing Rules;
- (3) that the independent non-executive Directors will review annually the Continuing Connected Transactions and confirm in the Company's annual report and accounts that the transactions have been entered into:
- (i) in the ordinary and usual course of business of the Group;
 - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (4) that the auditors of the Company will review annually the Continuing Connected Transactions and provide the Directors with a letter, a copy of which will be provided to the Stock Exchange, stating that the Continuing Connected Transactions:
- (i) have been approved by the Directors;
 - (ii) have been entered into in accordance with terms set out in the relevant agreements governing the Continuing Connected Transactions; and
 - (iii) have not exceeded the relevant caps agreed with the Stock Exchange.
- (5) the Company will promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters set out in rules 20.27 and/or 20.28 respectively as required under rule 20.29 of the GEM Listing Rules and will comply with the conditions the Stock Exchange considers appropriate.

If the values of the Continuing Connected Transactions described above exceed the relevant caps, or if any of the terms of the agreement referred to above are altered, the Company will comply with the requirements under the relevant provisions of the GEM Listing Rules.

Each of the Company, Genius and Taslon has undertaken to the Stock Exchange to allow the auditors of the Company sufficient access to their records for the purpose of reporting on the Continuing Connected Transactions as set out in (4) above.

YEAR 2000 COMPLIANCE ISSUE

The year 2000 problem arises primarily because computer data storage had been expensive in the past. Some system engineers tended to use only two digits to represent the year in databases to save storage space. As the production costs of the data storage decrease with the advances in technology and the increasing caution towards the year 2000 problem, recently developed products in the market are usually year 2000 compliant. During the Track Record Period, all of the products sold by the Group to its customers are year 2000 compliant.

The year 2000 compliance issue has already been taken into account during the stage of research and development of the Group's products. In addition, all software developed by the Group has been tested to be year 2000 compliant before they are launched. For outsourced software, the Group will require the suppliers to provide confirmation that the outsourced software is year 2000 compliant.

The Group has conducted an assessment on its internal computer systems and concluded that they are year 2000 compliant. In addition, the Group has implemented a year 2000 contingency plan which mainly includes the making of back-up copies of all computer files and the maintaining of a systematic filing of hard copies of the relevant documents. As at the Latest Practicable Date, the Group has not experienced any major year 2000 problem.

DIRECTORS

Executive Directors

Professor KOU Jisong, aged 52, is the founder of the Group and the chairman of the Company. He is responsible for the formulation of corporate strategy and future business direction of the Group. He is a professor and a supervisor to Ph.D. candidates and a member of the Chinese People's Political Consultative Conference. He is currently the vice-chancellor of Tianjin University and the chairman and general manager of Genius. He was the head of the Research Institute of System Engineering and the dean of the School of Management of Tianjin University before appointed the vice-chancellor. He holds a Ph.D. degree in systems engineering from Tianjin University.

Mr. DONG Jian Xin, aged 33, is the managing Director of the Company. He is one of the founding staff members of the Group and is responsible for general management and operation of the Group. Before joining the Group in 1997, he had 9 years' experience in research and development of information systems. He holds a Master's degree in systems engineering from Tianjin University.

Professor LI Min Qiang, aged 34, is one of the founding staff members of the Group and is responsible for research and development of new products. He is a professor and the head of the Department of Management Information Systems of the School of Management of Tianjin University. Prior to joining the Group in 1997, he had 10 years' experience in research and development of information systems. He holds a Master's degree in systems engineering from Tianjin University.

Mr. YAO Xiao Dong, aged 34, is one of the founding staff members of the Group and is responsible for the Group's market development. He is also the compliance officer of the Company for the purposes of the GEM Listing Rules. Prior to joining the Group in 1997, he had 10 years' experience in research of economics policy. He holds a Bachelor of Economics degree from Nankai University.

Each of the executive Directors has entered into a service contract with the Company. Details of such service contracts are set out in the paragraph headed "Further information about Directors, management, staff and experts" in Appendix IV to this prospectus.

Independent non-executive Directors

Mr. LI Shan Hai, aged 60, is an independent non-executive Director appointed by the Company in January 2000. He graduated from the People's University of China. He has worked for the Tianjin Municipal Government for over 20 years, as an official in the Policy Research Office and as the vice director of Tianjin Committee for Restructuring Economic Systems. He joined Tianjin Office of the China Securities Regulatory Commission in 1995 and had been its director before his retirement in July 1999.

Mr. Andrew SHERRILL, aged 42, is an independent non-executive Director appointed by the Company in January 2000. He is the managing director of AsiaVest Investment Advisory Limited. He obtained a Bachelor of Science degree in engineering from the United States Military Academy, West Point, New York, the United States, and a Master of Business Administration degree from the University of Colorado, at Colorado Springs in the United States. He has over 14 years' experience in securities and fund management.

Mr. WANG Fu Sun, aged 67, is an independent non-executive Director appointed by the Company in January 2000. He has worked for the PRC government for over 30 years and has held positions in the Ministry of Foreign Affairs and the State Education Commission.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are (i) to review the annual report and accounts, half-year reports and quarterly reports and provide advice and comments thereon to the board of Directors and (ii) to review and supervise the financial reporting process and internal control system of the Group.

The audit committee will consist of three members comprising Mr. Li Shan Hai and Mr. Andrew Sherrill, both being independent non-executive Directors, and Professor Li Min Qiang, being an executive Director.

SENIOR MANAGEMENT

Mr. CHAI Chi Man, aged 36, is the group financial controller, qualified accountant and company secretary of the Company. He is a Certified Public Accountant and holds a Master's degree in finance and investments from the University of Exeter, the United Kingdom. He is also a fellow member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants. Prior to joining the Group in September 1999, he had 15 years' experience in auditing and accounting and has worked for an international accounting firm as well as a number of listed companies and sizable organisations.

Mr. TANG Bin, aged 33, is the deputy general manager of Tiancai Network. He joined the Group in November 1997 and is responsible for product and services development, production, sales and marketing of the Group. He was a deputy head of the department of information services of Genius. He holds a Bachelor of Science degree in computing from East China University of Science & Technology.

Mr. LI Yong Chao, aged 36, is the chief engineer of Tiancai Network for research and development. Prior to joining the Group in January 1997, he had 7 years' experience in research and development in relation to electronic industry. He holds a Master of Engineering degree from Hebei Institute of Engineering.

STAFF

Staff

As at the Latest Practicable Date, the Group had a total of 53 staff and a majority of them are based in the PRC. The breakdown of staff by function is as follows:

Management	3
Research and Development	
— Hardware	6
— Software	12
Information services	15
Sales and marketing	11
Finance & administration	6
	<u>53</u>

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Almost all of the staff members are either university graduates or graduates from post-secondary education institutions and they are assigned to one of the five departments. The following table sets out areas of responsibility of the departments:

Department	Areas of responsibility
Management	Strategic planning and general management
Research and development	
— Hardware	Development and production of transmission and reception modules for data broadcasting
— Software	Development and continuing improvement of software for data broadcasting
Information services	Planning, sourcing and production of multimedia contents for data broadcasting
Sales and marketing	Market development through liaison and cooperation with TV network operators and enrolment of subscribers
Finance & administration	Financial management and general administration

Relationship with staff

The Group recognises the importance of training for its staff. Apart from on-the-job training, the Group regularly provides internal and external training for its staff to enhance technical and product knowledge.

The Group has not experienced any significant problem with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulty in the recruitment or retention of experienced staff. The Directors believe that the Group maintains a good working relationship with its employees.

Pension scheme

Currently, the Group does not provide any provident fund or other similar pension scheme for its employees. Employees in the PRC are enrolled in the mandatory central pension scheme operated by the PRC government.

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme whereby full-time employees of the Group, including executive Directors, may be granted options to acquire Shares. The Directors believe that the Share Option Scheme will assist in the recruitment and retention of high calibre executives and employees. The principal terms of the Share Option Scheme are set out in the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus.

SUBSTANTIAL AND MANAGEMENT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDER

So far as the Directors are aware, after the completion of the Placing and the Capitalisation Issue (but without taking into account any Shares which may be taken up under the Placing), the only persons directly or indirectly interested in 10% or more of the voting power at any general meeting of the Company will be as follows:

Name	Number of Shares	Percentage of voting power
Ultra Challenge	42,975,000	57.3% (Note 1)

MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, after the completion of the Placing and the Capitalisation Issue (but without taking into account any Shares which may be taken up under the Placing), the Management Shareholders will be as follows:

Name	Number of Shares	Percentage of voting power
Ultra Challenge	42,975,000	57.3% (Note 1)
Mr. Dong Jian Xin	—	— (Note 2)
Professor Li Min Qiang	—	— (Note 3)
Mr. Yao Xiao Dong	—	— (Note 4)
Mr. Tang Bin	—	— (Note 5)
Mr. Wang Guangxin	—	— (Note 6)
Mr. Zhang Renli	—	— (Note 7)
Mr. Li Jiancheng	—	— (Note 8)
Ms. Yue Shishuang	—	— (Note 9)
Mr. Li Yongchao	—	— (Note 10)
Mr. Sun Lianwen	—	— (Note 11)
Mr. Ji Songqiao	—	— (Note 12)
Ms. Cai Zhipei	—	— (Note 13)

Notes:

1. The shares in Ultra Challenge are held by HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust are Mr. Dong Jian Xin, Professor Li Min Qiang, Mr. Yao Xiao Dong, Mr. Tang Bin, Mr. Wang Guangxin, Mr. Zhang Renli, Mr. Li Jiancheng, Ms. Yue Shishuang, Mr. Li Yongchao, Mr. Sun Lianwen, Mr. Ji Songqiao and Ms. Cai Zhipei. For the purposes of the GEM Listing Rules, Ultra Challenge is a Management Shareholder of the Company and these beneficiaries of the trust have all agreed to be deemed to be Management Shareholders of the Company. Further details of the beneficial interests under the trust are set out in notes 2 to 13 below.
2. Mr. Dong Jian Xin is an executive Director and is beneficially interested in 10% of the property of the trust.
3. Professor Li Min Qiang is an executive Director and is beneficially interested in 10% of property of the trust.
4. Mr. Yao Xiao Dong is an executive Director and is beneficially interested in 10% of the property of the trust.

SUBSTANTIAL AND MANAGEMENT SHAREHOLDERS

5. Mr. Tang Bin is an employee of the Group and is beneficially interested in 10% of the property of the trust.
6. Mr. Wang Guangxin is an employee of the Group and is beneficially interested in 10% of the property of the trust.
7. Mr. Zhang Renli is an employee of the Group and is beneficially interested in 10% of the property of the trust.
8. Mr. Li Jiancheng is an employee of the Group and is beneficially interested in 10% of the property of the trust.
9. Ms. Yue Shishuang is an employee of the Group and is beneficially interested in 8% of the property of the trust.
10. Mr. Li Yongchao is an employee of the Group and is beneficially interested in 6% of the property of the trust.
11. Mr. Sun Lianwen is an employee of the Group and is beneficially interested in 6% of the property of the trust.
12. Mr. Ji Songqiao is an employee of the Group and is beneficially interested in 6% of the property of the trust.
13. Ms. Cai Zhipei is an employee of the Group and is beneficially interested in 4% of the property of the trust.

OPERATION OF THE TRUST

The trust referred to in note 1 in the paragraph headed “Management Shareholders” above was settled by Professor Kou as a fixed trust to reward and motivate certain senior management and employees of the Group who have contributed to the development, business or operation of the Group. Currently the property of the trust includes the entire issued share capital of Ultra Challenge. Professor Kou did not retain for himself any right or obligation vis-à-vis the trust or the property of the trust. HSBC International Trustee Limited has been appointed trustee of the trust, and it is required to seek directions and instructions from the beneficiaries of the trust, through a representative appointed amongst themselves, on the exercise of the voting powers arising from shares held by it as trustee of the trust and on certain administrative matters. Lion International Management Limited, a member company of the HSBC group and the sole director of Ultra Challenge, will act in accordance with the instructions of HSBC International Trustee Limited on such matters, including voting instructions at Shareholders’ meetings. Pursuant to an agreement entered into amongst the beneficiaries on 11th January, 2000 to regulate their relationship inter se, including the appointment of a representative, the representative is not given any discretionary power and is required to follow the majority decision of the beneficiaries (decided by votes conducted on polls, calculated by reference to the respective proportions in which beneficial interests under the trust are held and in the event of an equality of votes, the most senior beneficiary (the seniority of whom is determined by the order in which their names stand in the list of beneficiaries for the time being maintained by HSBC International Trustee Limited) has a casting vote) whenever directions and instructions from the representative are required by the trustee. The first representative is Mr. Dong Jian Xin and any subsequent appointment or removal of the representative will be determined amongst the beneficiaries by majority decision (decided by votes conducted on polls, calculated by reference to the respective proportions in which

SUBSTANTIAL AND MANAGEMENT SHAREHOLDERS

beneficial interests under the trust are held). Any transfer by a beneficiary of his interest in the trust after two years from the date on which the Shares are listed on the Stock Exchange is subject to pre-emption rights of other beneficiaries. Every transferee, if not an original beneficiary, will take up his interest subject to the terms of the trust and will be required to accede to the agreement entered into amongst the beneficiaries as if he were an original party. Under such agreement, the interests of the beneficiaries under the trust are subject to a two-year lock-up period.

UNDERTAKINGS

Ultra Challenge has undertaken to the Stock Exchange, the Company and the Sponsor (i) to place in escrow with an escrow agent acceptable to the Stock Exchange its 42,975,000 Shares and other relevant securities as defined under 13.15(4) of the GEM Listing Rules (the “Relevant Shares”), for a period of two years from the date of commencement of dealings of Shares (the “Moratorium Period”) on terms acceptable to the Stock Exchange. Each of the Management Shareholders has also undertaken to the Stock Exchange, save as provided in Rule 13.17 of the GEM Listing Rules, not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (nor enter into any agreement to dispose of) any of its direct or indirect interest in the Relevant Shares during the Moratorium Period. Any subsequent disposal of any direct or indirect interest in the Relevant Shares by Ultra Challenge will require express instructions from the beneficiaries of the trust mentioned in the paragraph headed “Operation of the trust” above (through a representative appointed amongst themselves).

Each of the Management Shareholders has further undertaken to the Stock Exchange and the Company that (i) in the event that it pledges or charges any direct or indirect interest in the Relevant Shares under Rule 13.17 of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.17(5) of the GEM Listing Rules at any time during the Moratorium Period, it must inform the Company immediately thereafter, disclosing the relevant information specified in Rule 17.43 (1) to (4) of the GEM Listing Rules and (ii) having pledged or charged any interest in the Relevant Shares as in (i) above, it must inform the Company immediately in the event that it becomes aware that the pledgee or the chargee has disposed of or intends to dispose of such interest and of the number of Shares affected.

SHARE CAPITAL

<i>Authorised:</i>		\$
<u>300,000,000</u>	Shares	<u>30,000,000</u>

Issued and to be issued, fully paid or credited as fully paid:

2,000,000	Shares in issue	200,000
40,975,000	Shares to be issued pursuant to the Capitalisation Issue	4,097,500
2,025,000	Shares to be issued as Remuneration Shares	202,500
<u>30,000,000</u>	Shares to be issued pursuant to the Placing	<u>3,000,000</u>
<u>75,000,000</u>	Shares	<u>7,500,000</u>

Assumptions

This table assumes that the Placing and the Capitalisation Issue become unconditional.

It takes no account of any Shares which may be issued under the Over-allotment Option or the Share Option Scheme, or under the general mandate (see below “General mandate to issue Shares”), or which may be bought back by the Company (see below “General mandate to repurchase Shares”).

Ranking

The Placing Shares will rank *pari passu* in all respects with all Shares in issue or to be issued and, in particular, will qualify for all dividends or other distributions hereafter declared, paid or made on the Shares except in respect of the Capitalisation Issue.

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme. A summary of its principal terms is set out in the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus.

Under the Share Option Scheme, options to subscribe for Shares may be granted to executive Directors and full-time employees of the Group provided that the aggregate nominal value of Shares in respect of which options may be granted under the Share Option Scheme shall not exceed, when aggregated with any Shares subject to any other share option schemes of the Company, 10% of the aggregate nominal value of all the issued Shares from time to time (excluding Shares which may fall to be issued pursuant to the exercise of options granted under the Share Option Scheme).

General mandate to issue Shares

A general unconditional mandate has been granted to the Directors to allot, issue and deal with Shares with a total nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal amount of Shares in issue and to be issued (as set out in the above table, plus such number of Shares as may be issued upon the exercise of the Over-allotment Option); and
- (ii) the aggregate nominal amount of Shares repurchased by the Company under the authority referred to in the paragraph headed “General mandate to repurchase Shares” below.

SHARE CAPITAL

This mandate does not apply to situations where the Directors allot, issue or deal with Shares under a rights issue, script dividend scheme or similar arrangements in accordance with the bye-laws of the Company, or on the exercise of options granted under the Share Option Scheme.

This mandate will expire:

- (i) at the conclusion of the next annual meeting of the Company; or
- (ii) at the end of the period within which the next annual general meeting of the Company is required by any applicable law or the bye-laws of the Company to be held; or
- (iii) when varied or revoked by an ordinary resolution of Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see the paragraph headed “Further information about the Company” in Appendix IV to this prospectus.

General mandate to repurchase Shares

A general unconditional mandate has been granted to the Directors to exercise all the powers of and on behalf of the Company to repurchase Shares with nominal value of up to 10% of the aggregate nominal amount of the Shares in issue and to be issued (as set out in the above table, plus such number of Shares as may be issued upon exercise of the Over-allotment Option).

This mandate relates to purchases made on GEM, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “Repurchase by the Company of its own securities” in Appendix IV to this prospectus.

This mandate will expire:

- (i) at the conclusion of the next annual general meeting of the Company; or
- (ii) at the end of the period within which the next annual general meeting of the Company is required by any applicable law or the bye-laws of the Company to be held; or
- (iii) when varied or revoked by an ordinary resolution of Shareholders in general meeting,

whichever is the earliest.

For further details of this general mandate, see the paragraph headed “Further information about the Company” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

INDEBTEDNESS

At the close of business on 31st October, 1999, being the latest practicable date for the purpose of this indebtedness statement, the Group did not have any outstanding mortgages, charges, debentures or other loan capital issued or outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, or hire purchase contracts or any guarantees or other material contingent liabilities.

The Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the companies comprising the Group since 31st October, 1999.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under the rules 17.15 to 17.21 of the GEM Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31st October, 1999, the Group had net current assets of approximately HK\$1,488,000.

Net current assets comprised cash at bank of approximately \$2,747,000, inventories of approximately \$611,000 and accounts receivable of approximately \$242,000, net of accounts payable of approximately \$1,531,000 and other payable of approximately \$581,000.

Borrowings and banking facilities

The Group's operations were generally financed by short term advances from Genius and internally generated funds. As at 31st October, 1999 the Group did not have any banking and loan facilities.

Directors' opinion of the working capital

The Directors are of the opinion that taking into consideration the financial resources available to the Group including the internally generated funds and the estimated net proceeds of the Placing, the Group has sufficient working capital for its present requirements.

FINANCIAL INFORMATION

TRADING RECORD

Summary of combined results of the Group

The following table summarises the Group's pro forma combined turnover and results for the two years ended 31st December, 1998 and the six months ended 30th June, 1999 prepared on the assumption that the current structure of the Group had been in place throughout the period under review. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

	Year ended		Six months
	31st December,		ended
	1997	1998	30th June,
	\$'000	\$'000	1999
			\$'000
Reception modules (<i>Note 1</i>)	190	5,841	3,636
Software (<i>Note 2</i>)	103	1,053	439
Income derived from data broadcasting service subscription	—	399	243
Others (<i>Note 3</i>)	—	1	6
	<u>293</u>	<u>7,294</u>	<u>4,324</u>
Turnover (<i>Note 4</i>)			
Cost of sales	(222)	(5,770)	(3,943)
	<u>71</u>	<u>1,524</u>	<u>381</u>
Gross profit			
Selling expenses	(12)	(315)	(262)
General and administrative expenses	(186)	(480)	(305)
	<u>(127)</u>	<u>729</u>	<u>(186)</u>
Profit/(loss) before taxation			
Taxation	—	—	—
	<u>(127)</u>	<u>729</u>	<u>(186)</u>
Profit/(loss) before minority interests			
Minority interests	38	(219)	56
	<u>(89)</u>	<u>510</u>	<u>(130)</u>
Net profit/(loss) attributable to shareholders			

Notes:

- (1) Reception modules include PC plug-in boards.
- (2) Software includes distance education access software and stock analysis software.
- (3) Others include system integration, technical support and consultancy service.
- (4) Turnover represents the invoiced value of goods sold and services rendered, net of value-added tax, business tax and government surcharges, and after allowance for goods returned and trade discounts.

During the Track Record Period, the Group's turnover grew in accordance with its increasing sales activities. For the two years ended 31st December, 1998 and the six months ended 30th June, 1999, the Group had recorded combined turnovers of approximately \$293,000, \$7,294,000 and \$4,324,000, respectively. The Group's net profit margin/(loss percentage) was about (30.4%), 7.0% and (3.0%), respectively, for the two years ended 31st December, 1998 and the six months ended 30th June, 1999.

FINANCIAL INFORMATION

Year ended 31st December, 1997

For the year ended 31st December, 1997, the Group recorded a turnover of about \$293,000 which mainly derived from the sale of PC plug-in boards and stock analysis software. During the first half of the year, the Group's resources were mainly devoted to the research and development of data broadcasting technology and the relevant products and services. The Group started to market its PC plug-in boards and stock analysis software in December 1997 and the sales were yet to pick up. The gross profit amounted to about \$71,000, representing a gross margin of about 24.2%. The relatively high gross margin resulted from the high-margin pricing policy adopted by the Group at the time the PC plug-in boards were first marketed, which was partially offset by the stock analysis software that was sold with a low margin to complement the sale of PC plug-in boards. During the year, the Group was yet to attain economies of scale and recorded a loss before taxation and net loss attributable to Shareholders of about \$127,000 and \$89,000, respectively.

Year ended 31st December, 1998

For the year ended 31st December, 1998, the Group recorded a turnover of about \$7,294,000, representing an increase of about 24 times over that of the previous financial year. The sharp increase in turnover was mainly due to the sharp increase in sales of PC plug-in boards and the accompanied stock analysis software as a result of Group's increasing sales activities and marketing efforts through strategic alliance with 41 TV network operators which enhanced the sales of the Group's reception modules. In addition, the Group started to disseminate real-time stock quotation information and supply distance education contents to Tianjin Cable TV Network with which the Group shared the relevant income from data broadcasting service subscription.

The gross profit increased by about 21 times to about \$1,524,000, representing a gross margin of about 20.9%, a slight decrease from the 24.2% gross margin of the previous year. The decrease in gross margin was mainly due to (i) the general reduction of the price of the Group's PC plug-in boards (average unit price of PC plug-in board decreased by about 22.6% over that of the previous year) as a result of the Group's pricing and marketing strategies to boost sales of PC plug-in boards and the sales volume increased by about 40 times; (ii) the increase in the sales contribution of certain major distributors to which the Group offered bulk purchase discounts and (iii) the considerable losses from the sale of distance education access software and the provision of relevant contents which were in the development stages involving considerable initial investment cost and the short operation period of less than 4 months, offset by the provision of higher-gross-margin stock quotation information, and the increase in the gross margin of the sales of stock analysis software as a result of general decrease in purchase cost and bulk purchase discounts offered to the Group.

During the year, the operating cost increased as a result of the increase in the number of employees and the commencement of marketing activities such as liaison with TV networks operators and advertisement in newspapers, magazines and on TVs. Despite the increase in operating cost, the Group recorded a profit before taxation of about \$729,000 as a result of the sharp increase in gross profit.

During the year, the Group recorded a profit attributable to Shareholders of about \$510,000, representing a net margin of about 7.0%.

FINANCIAL INFORMATION

Six months ended 30th June, 1999

For the six months ended 30th June, 1999, the Group recorded a turnover of approximately \$4,324,000. The gross profit and the loss before taxation amounted to about \$381,000 and \$186,000, respectively. The gross margin decreased to about 8.8%. The decrease in gross margin was mainly due to (i) the Group's marketing strategies to offer free distance education access software to purchasers of PC plug-in boards in Tianjin; (ii) the provision of distance education contents which were still at the development stage thus involving considerable initial investment cost; (iii) the decrease in gross margin of sale of stock analysis software as a result of the Group's marketing scheme to boost the sales of PC plug-in boards by selling PC plug-in boards together with stock analysis software at a discount and virtually at cost, partially offset by the increase in gross margin of sale of PC plug-in boards as a result of economies of scale and the decrease in the average discount offered by the Group to the distributors as the number of the distributors increased as compared to that of the previous financial year. The gross margin for provision of real-time stock quotation information remained stable. During the period, the Group recorded a net loss attributable to the Shareholders of about \$130,000 as a result of the lower gross margin and the increasing operating cost to finance the Group's expansion.

Performance of the Group during the six months ended 31st December, 1999

During the six months period ended 31st December, 1999, the Group's sales activities increased significantly compared with the six months ended 30th June, 1999. The sales volumes (quantity sold) of the Group's PC plug-in boards and software increased by over 90% and 60%, respectively from the corresponding sales volumes during the first half of 1999. The increase was mainly attributable to the expanding sales network and the increase in the number of strategically allied TV network operators. During the second half of 1999, the number of new subscribers for the Group's data broadcasting services increased by over 3 times from those of the first half of 1999, which was mainly attributable to promotional activities conducted during this period and the increasing attractiveness of the Group's data broadcasting services. Overall gross profit margin of the Group improved but was offset by the increase in the Group's other operating expenses. Accordingly, the Directors do not expect that the Group would record a substantial net profit for the whole year ended 31st December, 1999.

Please also refer to the section headed "Statement of active business pursuits" under the "Business" section of this prospectus for the Group's performance during the period from 1st November, 1997 to the Latest Practicable Date.

The description of the Group's performance during the six months ended 31st December, 1999 is based on the latest information available which has not been audited.

Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Track Record Period.

Prior to the reorganisation of the Group, the data broadcasting business of Tiancai Network was carried on by Genius. Genius is a high-technology enterprise situated in an approved high-technology development zone. According to the relevant tax rules and regulations in the PRC, Genius was exempted from income tax for the two fiscal years commencing in November 1997 and ended on 31st December, 1998 and, thereafter, is taxable at a concessionary income tax rate of 15%. Prior to November 1997, pursuant to an approval document issued by the relevant PRC tax authorities, no income tax was payable by Tiancai Centre, the predecessor of Genius, as it was wholly-owned by Tianjin University in the PRC.

FINANCIAL INFORMATION

Under the Income Tax Law of the PRC, Tiancai Network is subject to an income tax rate of 33%. Pursuant to an approval document issued by Tianjin High-tech Industry Park State Tax Bureau, Tiancai Network is exempted from income tax for the first two profitable years of operations and thereafter, is entitled to a 50% relief from income tax for the following three years.

The Group did not have any significant unprovided deferred tax liabilities in respect of the Track Record Period.

Waivers in respect of Rules 7.03(1), 11.10 and 11.11 of the GEM Listing Rules and paragraph 31 of the Third Schedule to the Companies Ordinance

The Directors are aware of the following requirements:

- (i) **Rules 7.03(1) and 11.10 of the GEM Listing Rules which require that the accountants' report included in this prospectus must include the combined results of the Group in respect of each of the two financial years immediately preceding the issue of this prospectus and according to Rule 11.11 of the GEM Listing Rules, the latest financial period of the Company reported on by the reporting accountants must not have ended more than six months before the date of this prospectus. The accountants' report contained in this prospectus has been prepared to include combined results of the Group for each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999 only.**
- (ii) **Paragraph 31 of the Third Schedule to the Companies Ordinance which requires this prospectus to include a report by the auditors of the Company with respect to the profits and losses of the Group for each of the two years ended 31st December, 1999 and the assets and liabilities of the Group as at 31st December, 1999.**

The Company has applied to the Stock Exchange for waivers from compliance with the requirements referred to in (i) and has been granted by the Securities and Futures Commission a certificate of exemption from compliance with the requirement referred to in (ii). The Directors confirmed that they have performed sufficient due diligence on the Group to ensure that, save as disclosed herein, up to the date of the issue of this prospectus, there has been no material adverse change in the financial position of the Group since 30th June, 1999, and there is no event which would materially affect the information shown in the accountants' report of the Group as set out in Appendix I to this prospectus.

PROPERTY INTERESTS AND OTHER ASSETS

Hong Kong

The Group's liaison office in Hong Kong is located at 6th Floor, Hing Yip Commercial Centre, 272-284 Des Voeux Road Central, Hong Kong. The Group shares a saleable floor area of approximately 243.48 sq.m. with parties not connected with any of the directors, Management Shareholders and chief executives of the Company or its subsidiaries or their respective associates under the GEM Listing Rules. The use of such office premises is licensed from an independent third party for a term of one year commencing on 1st December, 1999 and ending on 30th November, 2000 (both days inclusive), at a monthly licence fee of \$12,000 inclusive of management fee, government rent and rates, utilities including water, electricity, local telephone and facsimile charges (not including long distance telephone and facsimile charges), use of furniture, fixtures and office equipment and conference room, and provision of general secretarial services.

FINANCIAL INFORMATION

The PRC

The Group's head office in the PRC is located at Unit A, 2nd Level, No. 3 Hua Tian Road, Huayuan Industry Area, Tianjin Hi-tech Industry Park, Tianjin, the PRC. The Group leases this office premises from the Genius Group with a total gross floor area of approximately 235 sq.m. for a term commencing on 1st July, 1999 and ending on 31st December, 2001 (both days inclusive), at a rental inclusive of water and electricity charges, air conditioning and heat charges and management fee. The annual rental for the period from 1st July, 1999 to 31st December, 2000 is approximately RMB171,550 (approximately \$160,327) and the rental for the year ending 31st December, 2001 is subject to review by both parties. Such premises accommodates the management department, the research and development department, the information services department, the sales and marketing department and the finance and administration department of the Group.

Property valuation

The property interests of the Group have been valued to be of no commercial value as at 31st October, 1999 by Sallmanns (Far East) Limited, an independent property valuer. The texts of the letter with a summary of valuation and a valuation certificate of these property interests prepared by Sallmanns (Far East) Limited are set out in Appendix II to this prospectus.

DIVIDENDS

The Company does not anticipate paying dividends in the foreseeable future. The Company anticipates that all earnings in the foreseeable future will be retained to finance the continuing development of its business. However, future dividends, if any, will be declared or paid at the discretion of the board of Directors and will depend upon, among other things, the Company's operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as the board of Directors may deem relevant.

DISTRIBUTABLE RESERVES

As at 30th June, 1999, the Company had not been incorporated. There was accordingly no reserve available for distribution to the Shareholders as at that date.

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 30th June, 1999 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	\$'000
Audited combined net assets of the Group as at 30th June, 1999	1,392
Less: Group's share of intangible asset after Minority Interests	<u>(358)</u>
Audited net tangible assets of the Group as at 30th June, 1999	1,034
Unaudited combined profit after taxation and minority interests of the Group for the four months ended 31st October, 1999 based on its unaudited management accounts	403
Estimated net proceeds of the Placing (<i>Note 1</i>)	<u>27,100</u>
Adjusted net tangible assets	<u><u>28,537</u></u>
Adjusted net tangible asset value per Share (<i>Note 2</i>)	<u><u>38 cents</u></u>
Minimum Placing Price per Share (<i>Note 3</i>)	\$1.18
Dilution in adjusted net tangible asset per Share to subscribers of the Placing Shares at minimum Placing Price	80 cents

Notes:

1. The estimated net proceeds of the Placing is based on the minimum amount of \$35.4 million which must be raised under the Placing for the Placing to proceed and does not take into account Shares which may be issued pursuant to the Over-allotment Option.
2. The adjusted net tangible asset value per Share is calculated based on 75,000,000 Shares expected to be in issue immediately following the completion of the Placing but taking no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or the exercise of options granted under the Share Option Scheme or of any Shares which may fall to be issued or repurchased by the Company pursuant to the mandates referred to in Appendix IV to the prospectus.
3. The minimum Placing Price of \$1.18 per Share is the minimum Placing Price for the minimum amount of \$35.4 million which must be raised under the Placing for the Placing to proceed.

NO MATERIAL CHANGE

The Directors confirm that since 30th June, 1999 (being the date to which the latest audited combined financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group.

FUTURE PLANS AND PROSPECTS

MISSION

It is the Group's mission to establish itself as a leader in the data broadcasting services industry in the PRC and make its data broadcasting technology the industry standards in the PRC.

BUSINESS OBJECTIVES

According to the Statistical Report of the Development of China Internet issued in July 1999 ("Statistical Report, July 99") by CNNIC, Internet users in PRC reached 4 million as at 30th June, 1999, representing an approximately 90% and 545% increase, respectively, from that of 31st December, 1998 and 31st October, 1997. Although there is a sharp increase in the number of Internet users in the PRC during the past 2 years, the total number of Internet users in PRC is still well below that in the United States of America. Further, approximately 56.8% of the respondents to the Statistical Report put "browsing for information" on the top of their lists of reasons for accessing the Internet.

The Directors believe that there is a huge demand for information in the PRC which the PRC's Internet market has not yet been able to satisfy. The growth of PRC's Internet market is restrained by various factors, including overloaded gateways, long delays, slow response time, lack of contents in Chinese and high access fees. Considering the prevailing mismatch between the supply of and demand for information in the PRC, the Group devotes itself to the development of data broadcasting technology.

Capitalising on the existing broad-band cable TV networks resources, the Group broadcasts data through cable networks at a higher speed and a lower cost compared with existing dial-up Internet access through telephone lines in the PRC. The Group has developed different reception modules to cater for both PC users and non-PC users. PCs equipped with the Group's data broadcasting plug-in boards or TV sets equipped with the Group's TV set top boxes can transparently receive, decode and store content and avoid the bottleneck of the Internet or congested telephone lines. Users could browse and receive downloaded information, entertainment, software and other contents.

The Group's business objectives are as follows:

Establishing strategic alliance with TV network operators

The Group will continue to establish strategic alliance with TV network operators to secure demand of the networks and the subscribers of these networks for its data broadcasting products and services and to explore additional sources of revenue from the sharing of income derived from data broadcasting service subscription with these TV network operators and advertising. It is the Group's strategy to broaden the user base at full speed through establishing strategic alliance with TV network operators so as to enlarge the Group's recurrent income sources in the future.

Providing popular contents to attract subscribers

The Group will produce, gather or acquire selected contents including distance education contents, financial information, electronic newspapers and magazines, music, shareware and other contents from the Internet to attract subscribers to data broadcasting services. In addition to the huge market for financial information, the Directors believe that there is also a great potential demand from students in the PRC for quality multimedia distance education contents. According to the China Statistical Yearbook 1999, approximately 216,354,000 students enrolled in primary and secondary schools, and regular institutions of higher education in the PRC in 1998. The

FUTURE PLANS AND PROSPECTS

Group plans to source education materials from reputable institutions or teachers in the PRC and to develop more distance education contents for primary and secondary education for subscription within the next 36 months. The Group also intends to develop other multimedia distance education contents for further education and professional examinations.

Commitment to investing in research and development

The Group will continue to focus on investing in the development of its high-calibre research and development team. The Group's dedicated management and research and development professionals will devote themselves to keeping abreast of the market trends and technological evolution and at the same time developing information technologies and related products and services.

Marketing different models of reception modules

The Group will make continuous efforts to market its FC data broadcasting PC plug-in boards. The Group intends to market its financial TV set top boxes and multimedia TV set top boxes in late January 2000 and February 2000, respectively. Sale of TV set top boxes are expected to be one of the major income sources of the Group in the foreseeable future. The Directors believe that cable TV subscribers in the PRC will provide a huge customer base for its data broadcasting business.

Enhancing sales and marketing efforts

The Group will also make continuous efforts to expand its sales and marketing network by organising promotional activities and advertising its products and services.

Exploring additional commercial opportunities

The Group will devote its efforts to the exploration of additional commercial opportunities in the information service technologies such as interactive broadband data broadcasting to maximise the Group's returns.

For details of the Group's business objectives for the 36 months ending 31st December, 2002, please refer to the section headed "Statement of business objectives" below.

The business objectives as set out in the sub-section headed "Business objectives" and "Statement of business objectives" under the section headed "Future plans and prospects" in this prospectus represent the targets, objectives and future plans of the Group. The Directors set those targets, objectives and plans in the light of the existing plans of the Group and on the assumptions more particularly described in the sub-section headed "Statement of business objectives" under "Future plans and prospects" section in this prospectus. Such targets, objectives and future plans are by their nature subject to uncertainty. The Group's actual course of business may vary from the business objectives set out in this prospectus. There can be no assurance that the plans of the Group will materialise in accordance with the expected time frame or the objectives of the Group will be accomplished if at all.

STATEMENT OF BUSINESS OBJECTIVES

Set out below is the statement of business objectives of the Group for the period commencing from the Latest Practicable Date to 31st December, 2002:

	Latest Practicable Date – 30/6/2000	1/7/2000 – 31/12/2000	1/1/2001 – 30/6/2001	1/7/2001 – 31/12/2001	1/1/2002 – 30/6/2002	1/7/2002 – 31/12/2002
SALES	<ul style="list-style-type: none"> Launch FC data broadcasting PC plug-in board model VI Launch financial TV set top box model I and model II Launch multimedia TV set top box model I 	<ul style="list-style-type: none"> Launch FC data broadcasting PC plug-in board model VII Launch financial TV set top box model III Launch multimedia TV set top box model II 	<ul style="list-style-type: none"> Launch FC data broadcasting PC plug-in board model VIII Launch financial TV set top box model V Launch multimedia TV set top box model III 	<ul style="list-style-type: none"> Launch FC data broadcasting PC plug-in board model IX Launch financial TV set top box model VI Launch multimedia TV set top box model V 	<ul style="list-style-type: none"> Launch new model(s) of PC plug-in board Launch new model(s) of financial TV set top box Launch new model(s) of multimedia TV set top boxes 	<ul style="list-style-type: none"> Launch new model(s) of PC plug-in board Launch new model(s) of financial TV set top box Launch new model(s) of multimedia TV set top boxes
Reception modules (target sales volume)						
<ul style="list-style-type: none"> PC plug-in boards TV set top boxes <ul style="list-style-type: none"> Financial Multimedia Total number of TV set top boxes 	60,000 units	60,000 units	80,000 units	90,000 units	(Note)	(Note)
Software (target sales volume)	24,000 sets	24,000 sets	32,000 sets	36,000 sets	(Note)	(Note)
Income derived from data broadcasting subscription (target accumulated no. of subscribers)	50,800 subscribers	98,800 subscribers	180,800 subscribers	267,800 subscribers	(Note)	(Note)
STRATEGIC ALLIANCE	<ul style="list-style-type: none"> Sign cooperative agreements with cable TV network operators in well developed cities or which have installed the Group's VBI data broadcasting transmission modules Concentrate efforts on procuring strategic alliance with cable TV network operators in major coastal cities and medium to large cities Target cable TV networks operators with over 0.3 million cable TV subscribers each Establish strategic alliance with 25 new content providers including electronic newspapers and magazines, and financial information providers 	<ul style="list-style-type: none"> Continue to establish strategic alliance with TV network operators Concentrate efforts on procuring strategic alliance with cable TV network operators in coastal cities and developed, small to medium cities Target cable TV network operators with over 0.3 million cable TV subscribers each Establish strategic alliance with 25 new content providers including electronic newspapers and magazines, and financial information providers 	<ul style="list-style-type: none"> Continue to establish strategic alliance with TV network operators Concentrate efforts on procuring strategic alliance with cable TV network operators in developed, small to medium cities and residential areas of large enterprise Target cable TV network operators with over 0.2 million cable TV subscribers each Establish strategic alliance with 20 new content providers including electronic newspapers and magazines, and financial information providers 	<ul style="list-style-type: none"> Continue to establish strategic alliance with TV network operators Concentrate efforts on procuring strategic alliance with cable TV network operators in developed, small to medium cities and residential areas of large enterprise Target cable TV network operators with over 0.15 million cable TV subscribers each Establish strategic alliance with 20 new content providers including electronic newspapers and magazines, financial information providers, and renowned ISPs and ICPs in the PRC or overseas 	<ul style="list-style-type: none"> Continue to establish strategic alliance with TV network operators Concentrate efforts on procuring strategic alliance with cable TV network operators in developed, small to medium sized cities Continue to establish strategic alliance with content providers 	<ul style="list-style-type: none"> Continue to establish strategic alliance with TV network operators Concentrate efforts on procuring strategic alliance with cable TV network operators in developed, small to medium cities Continue to establish strategic alliance with content providers

Note: No target sales volume or number. of subscribers is provided for the year ending 31st December, 2002 in view of the increasing degree of uncertainty involved.

	Latest Practicable Date – 30/6/2000	1/7/2000 – 31/12/2000	1/1/2001 – 30/6/2001	1/7/2001 – 31/12/2001	1/1/2002 – 30/6/2002	1/7/2002 – 31/12/2002	
Number of strategically allied TV network operators:							
• New (with and without cooperative agreements)	50	50	70	70	75	75	
• Total (with and without cooperative agreements)	153	203	273	343	418	493	
• Under cooperative agreements which provides for sharing of data broadcasting service subscription	39	79	139	199	274	349	
MARKETING							
Sales and after sales network	<ul style="list-style-type: none"> Engage 50 new authorised distributors Engage 5 authorised distributors to be the sales and after sales services representatives of the Group in major cities 	<ul style="list-style-type: none"> Engage 50 new authorised distributors 	<ul style="list-style-type: none"> Engage 70 new authorised distributors 	<ul style="list-style-type: none"> Engage 70 new authorised distributors 	<ul style="list-style-type: none"> Engage 75 new authorised distributors 	<ul style="list-style-type: none"> Engage 75 new authorised distributors 	
Promotion activities	<ul style="list-style-type: none"> Advertise on TV and in popular newspapers, periodicals or magazines 	<ul style="list-style-type: none"> Advertise on TV and in popular newspapers, periodicals or magazines 	<ul style="list-style-type: none"> Advertise on TV and in popular newspapers, periodicals or magazines 	<ul style="list-style-type: none"> Advertise on TV and in popular newspapers, periodicals or magazines 	<ul style="list-style-type: none"> Advertise on TV and in popular newspapers, periodicals or magazines 	<ul style="list-style-type: none"> Advertise on TV and in popular newspapers, periodicals or magazines 	
Market research	<ul style="list-style-type: none"> Conduct research on market response to TV set top boxes to draw up the Group's sales and marketing program 	<ul style="list-style-type: none"> Conduct market research on overseas interactive broadband transmission system to keep abreast of any development in data broadcasting technology 	<ul style="list-style-type: none"> Conduct market research on PRC interactive broadband transmission system 	<ul style="list-style-type: none"> Conduct market research on products for PRC interactive broadband transmission system 	<ul style="list-style-type: none"> Conduct research on market response to TV set top boxes to evaluate the Group's sales and marketing program 		
OPERATION & PRODUCTION							
Transmission modules	<ul style="list-style-type: none"> Provide 25 new transmission modules for FC data broadcasting to TV network operators Contribute 50 new transmission modules for VBI data broadcasting to TV network operators 	<ul style="list-style-type: none"> Provide 40 new transmission modules for FC data broadcasting to TV network operators Contribute 50 new transmission modules for VBI data broadcasting to TV network operators 	<ul style="list-style-type: none"> Provide 60 new transmission modules for FC data broadcasting to TV network operators Contribute 70 new transmission modules for VBI data broadcasting to TV network operators 	<ul style="list-style-type: none"> Provide 60 new transmission modules for FC data broadcasting to TV network operators Contribute 70 new transmission modules for VBI data broadcasting to TV network operators 	<ul style="list-style-type: none"> Provide 75 new transmission modules for FC data broadcasting to TV network operators 	<ul style="list-style-type: none"> Provide 75 new transmission modules for FC data broadcasting to TV network operators 	
Reception modules	<ul style="list-style-type: none"> PC plug-in board TV set top box — Financial — Multimedia 	<ul style="list-style-type: none"> 60,000 units 30,000 units 30,000 units 	<ul style="list-style-type: none"> 60,000 units 60,000 units 30,000 units 	<ul style="list-style-type: none"> 80,000 units 60,000 units 60,000 units 	<ul style="list-style-type: none"> 90,000 units 90,000 units 60,000 units 	<ul style="list-style-type: none"> (note) 	<ul style="list-style-type: none"> (note)
Contents for data broadcasting	<ul style="list-style-type: none"> Start to produce distance education contents for 7 subjects of each of the 6 grades of secondary education Produce new contents by sourcing the same from electronic newspapers and magazines publishers and financial information providers 	<ul style="list-style-type: none"> Continue to produce distance education contents for 7 subjects of each of the 6 grades of secondary education Produce new contents by sourcing the same from electronic newspapers and magazines publishers and financial information providers 	<ul style="list-style-type: none"> Start to produce distance education contents for 3 subjects of each of the 5 grades of primary education, and for further education and/or professional examination Produce new contents by sourcing the same from electronic newspapers and magazines publishers and financial information providers 	<ul style="list-style-type: none"> Continue to produce distance education contents for 3 subjects of each of the 5 grades of primary education, and for further education and/or professional examination Produce new contents by sourcing the same from electronic newspapers and magazines publishers and financial information providers 	<ul style="list-style-type: none"> Produce distance education contents for secondary education Produce new contents by sourcing the same from electronic newspapers and magazines publishers and financial information providers 	<ul style="list-style-type: none"> Produce distance education contents for secondary education Produce new contents by sourcing the same from electronic newspapers and magazines publishers and financial information providers 	

Note: No target production volumes for reception modules is provided for the year ending 31st December, 2002 in view of the increasing degree of uncertainty involved.

	Latest Practicable Date – 30/6/2000	1/7/2000 – 31/12/2000	1/1/2001 – 30/6/2001	1/7/2001 – 31/12/2001	1/1/2002 – 30/6/2002	1/7/2002 – 31/12/2002
RESEARCH & DEVELOPMENT	<ul style="list-style-type: none"> Acquire computer hardware and software for product development Acquire facilities for product testing 	<ul style="list-style-type: none"> Acquire computer hardware and software for product development lease new operating site to accommodate expanding research and development department 	<ul style="list-style-type: none"> Acquire computer hardware and software for product development 	<ul style="list-style-type: none"> Acquire computer hardware and software for product development 	<ul style="list-style-type: none"> Acquire computer hardware and software for product development Acquire facilities for product testing 	<ul style="list-style-type: none"> Acquire computer hardware and software for product development
Transmission modules	<ul style="list-style-type: none"> Develop FC data broadcasting transmission module model III Develop VBI data broadcasting transmission modul model VI 	<ul style="list-style-type: none"> Develop FC data broadcasting transmission modul model V Develop VBI data broadcasting transmission module model VII Research and develop high-speed broadband data broadcasting systems 	<ul style="list-style-type: none"> Develop FC data broadcasting transmission module model VI Develop VBI data broadcasting transmission module model VIII Continue to research and develop high-speed broadband data broadcasting systems 	<ul style="list-style-type: none"> Develop FC data broadcasting transmission module model VII Develop VBI data broadcasting transmission module model IX Continue to research and develop high-speed broadband data broadcasting systems 	<ul style="list-style-type: none"> Continue to develop new models of transmission modules 	<ul style="list-style-type: none"> Continue to develop new models of transmission modules
Reception modules	<ul style="list-style-type: none"> Continue to research and develop financial TV set top box model II Research and develop financial TV set top box model II Research and develop multimedia TV set top box model II 	<ul style="list-style-type: none"> Develop financial TV set top box model II Continue to research and develop second generation multimedia TV set top boxes 	<ul style="list-style-type: none"> Develop multimedia TV set top box model II 		<ul style="list-style-type: none"> Continue to develop new models of reception modules 	<ul style="list-style-type: none"> Continue to develop new models of reception modules
Software	<ul style="list-style-type: none"> Research and develop application software for TV set top boxes 	<ul style="list-style-type: none"> Continue to research and develop application software for TV set top boxes 	<ul style="list-style-type: none"> Develop application software for TV set top boxes 		<ul style="list-style-type: none"> Continue to develop new application software for TV set top boxes 	<ul style="list-style-type: none"> Continue to develop new application software for TV set top boxes
SOURCING OF CONTENT	<ul style="list-style-type: none"> Acquire education contents for 7 subjects of each of the 6 grades of secondary education Source or acquire new contents from electronic newspapers and magazines publishers and financial information providers 	<ul style="list-style-type: none"> Continue to acquire education contents for 7 subjects of each of the 6 grades of secondary education Continue to source or acquire new contents from electronic newspapers and magazines publishers and financial information providers 	<ul style="list-style-type: none"> Acquire education contents for 3 subjects of each of the 5 grades of primary education and contents for further education and professional examinations Continue to source or acquire new contents from electronic newspapers and magazines publishers and financial information providers 	<ul style="list-style-type: none"> Continue to acquire education contents for 3 subjects of each of the 5 grades of primary education and contents for further education and professional examinations Continue to source or acquire new contents from electronic newspapers and magazines publishers and financial information providers 	<ul style="list-style-type: none"> Continue to acquire education contents for primary, secondary and further education, and professional examination Continue to source or acquire new contents from electronic newspapers and magazines publishers and financial information providers 	<ul style="list-style-type: none"> Continue to acquire education contents for primary, secondary and further education, and professional examination Continue to source or acquire new contents from electronic newspapers and magazines publishers and financial information providers

	Latest Practicable Date – 30/6/2000	1/7/2000 – 31/12/2000	1/1/2001 – 30/6/2001	1/7/2001 – 31/12/2001	1/1/2002 – 30/6/2002	1/7/2002 – 31/12/2002
HUMAN RESOURCE					(Note)	<ul style="list-style-type: none"> Total headcount amount to over 200, of which not Less than 50% are research and development personnel as at the end of year 2002
Management	5	5	7	8		
Research & development						
• Hardware	25	25	50	50		
• Software	20	30	40	50		
Information Services	30	35	50	50		
Sales & marketing	15	18	25	25		
Finance & administration	3	3	3	3		
Total headcount	98	116	175	186		
BASES & ASSUMPTIONS	<ul style="list-style-type: none"> Target to sign 25 new cooperative agreements with TV network operators (representing approximately 1.8% of the 1,403 cable TV network operators at county level in the PRC for the year 1998) Sales of reception modules is the minimum target of the Group, estimated on the basis of the expected new potential subscribers brought in as a result of the additional cooperative agreements. 1.6% of TV subscribers of new strategically allied TV network operators under cooperative agreements will purchase the Group's reception modules The sales volume of reception modules are allocated among PC plug-in board, financial TV set top box and multimedia set top box in accordance with the Group's sales target which the Directors consider achievable, after consulting with the Group's authorised distributors. 	<ul style="list-style-type: none"> Target to sign 40 new cooperative agreements with TV network operators (representing approximately 2.9% of the 1,403 cable TV network operators at county level in the PRC for the year 1998) Sales of reception modules is the minimum target of the Group, estimated on the basis of the expected new potential subscribers brought in as a result of the additional cooperative agreements. 1.3% of TV subscribers of new strategically allied TV network operators under cooperative agreements will purchase the Group's reception modules The sales volume of reception modules are allocated among PC plug-in board, financial TV set top box and multimedia set top box in accordance with the Group's sales target which the Directors consider achievable, after consulting with the Group's authorised distributors. 	<ul style="list-style-type: none"> Target to sign 60 new cooperative agreements with TV network operators (representing approximately 4.3% of the 1,403 cable TV network operators at county level in the PRC for the year 1998) Sales of reception modules is the minimum target of the Group, estimated on the basis of the expected new potential subscribers brought in as a result of the additional cooperative agreements. 1.7% of TV subscribers of new strategically allied TV network operators under cooperative agreements will purchase the Group's reception modules The sales volume of reception modules are allocated among PC plug-in board, financial TV set top box and multimedia set top box in accordance with the Group's sales target which the Directors consider achievable, after consulting with the Group's authorised distributors. 	<ul style="list-style-type: none"> Target to sign 60 new cooperative agreements with TV network operators (representing approximately 4.3% of the 1,403 cable TV network operators at county level in the PRC for the year 1998) Sales of reception modules is the minimum target of the Group, estimated on the basis of the expected new potential subscribers brought in as a result of the additional cooperative agreements. 2.7% of cable TV subscribers of new strategically allied TV network operators under cooperative agreements will purchase the Group's reception modules The sales volume of reception modules are allocated among PC plug-in board, financial TV set top box and multimedia set top box in accordance with the Group's sales target which the Directors consider achievable, after consulting with the Group's authorised distributors. 	<ul style="list-style-type: none"> Target to sign 75 new cooperative agreements with TV network operators (representing approximately 5.3% of the 1,403 cable TV network operators at county level in the PRC for the year 1998) 	<ul style="list-style-type: none"> Target to sign 75 new cooperative agreements with TV network operators (representing approximately 5.3% of the 1,403 cable TV network operators at county level in the PRC for the year 1998)

Note: No target total headcount as at the end of 30th June, 2002 is provided. Instead, target total headcount as at the end of 31st December, 2000 is provided.

Latest Practicable Date – 30/6/2000	1/7/2000 – 31/12/2000	1/1/2001 – 30/6/2001	1/7/2001 – 31/12/2001	1/1/2002 — 30/6/2002	1/7/2002 — 31/12/2002
<ul style="list-style-type: none"> 20% of PC plug-in board users, 10% of financial TV set top box users and 100% of multimedia TV set top box users will subscribe to the Group's data broadcasting services in accordance with the Group's sales target which the Directors consider achievable, after consulting with the Group's strategically allied TV network operators. During the Track Record Period, the Group only cooperated with Tianjin Cable TV Network to provide data broadcasting services in Tianjin. The Directors confirm that almost all the customers PC plug-in board users in Tianjin subscribed for the Group's data broadcasting services. 40% of the PC plug-in board users will also purchase ancillary software in accordance with the Group's sales target which the Directors consider achievable, after consulting with the Group's authorised distributors. During each of the three semi annual periods from 1st July, 1998 to the Latest Practicable Date as set out in the section headed "Statement of active business pursuits", the relevant ratios of the number of sets of software to the number of PC plug-in boards are about 58%, 47% and 40% respectively. 	<ul style="list-style-type: none"> 20% of PC plug-in board users, 10% of financial TV set top box users and 100% of multimedia TV set top box users will subscribe to the Group's data broadcasting services in accordance with the Group's sales target which the Directors consider achievable, after consulting with the Group's strategically allied TV network operators. 40% of the PC plug-in board users will also purchase ancillary software in accordance with the Group's sales target which the Directors consider achievable, after consulting with the Group's authorised distributors. 	<ul style="list-style-type: none"> 20% of PC plug-in board users, 10% of financial TV set top box users and 100% of multimedia TV set top box users will subscribe to the Group's data broadcasting services in accordance with the Group's sales target which the Directors consider achievable, after consulting with the Group's strategically allied TV network operators. 40% of the PC plug-in board users will also purchase ancillary software in accordance with the Group's sales target which the Directors consider achievable, after consulting with the Group's authorised distributors. 	<ul style="list-style-type: none"> 20% of PC plug-in board users, 10% of financial TV set top box users and 100% of multimedia TV set top box users will subscribe to the Group's data broadcasting services in accordance with the Group's sales target which the Directors consider achievable, after consulting with the Group's strategically allied TV network operators. 40% of the PC plug-in board users will also purchase ancillary software in accordance with the Group's sales target which the Directors consider achievable, after consulting with the Group's authorised distributors. 		

FUTURE PLANS AND PROSPECTS

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Group intends to raise funds by way of Placing for the expansion of the Group's data broadcasting business, in particular, the expansion of its sales and marketing networks and capabilities, the on-going research and development of information service technology and the mass production of reception modules so as to capitalise on the fast growing market in the PRC.

The net proceeds of the Placing based on the minimum amount of \$35.4 million being raised under the Placing and after deducting related expenses, assuming the Over-allotment Option is not exercised, are estimated to amount to approximately \$27.1 million. It is intended that the net proceeds will be applied as follows:

- as to approximately \$2.5 million for the acquisition of computer software, computer hardware and other equipment including software tools, application software, workstations, servers and product testing equipment for ordinary production and operation of the Group;
- as to approximately \$3.0 million for market development, comprising marketing campaigns, advertising and development of distributorship, in the light of the Group's plans to participate in not less than 7 trade shows and engage not less than 100 distributors by the year ended 31st December, 2001;
- as to approximately \$4.5 million for research and development of advanced models of financial and multimedia TV set top boxes and enhanced versions of multimedia broadcasting access software;
- as to approximately \$8.0 million as working capital for the provision of FC data broadcasting transmission modules to approximately 60 TV network operators by the end of 2000;
- as to approximately \$3.0 million as working capital for the mass production of the financial TV set top boxes;
- as to approximately \$3.0 million as working capital for the mass production of the multimedia TV set top boxes;
- as to approximately \$2.5 million as working capital for the sourcing of contents for data broadcasting which includes primary and secondary education materials from reputable teachers in the PRC; and
- as to the balance of approximately \$0.6 million as general working capital of the Group for funding the general expenditure of the Group's Hong Kong liaison office.

FUTURE PLANS AND PROSPECTS

Items (in \$'000)	Latest Practicable Date – 30/6/2000	1/7/2000 – 31/12/2000	1/1/2001 – 30/6/2001	1/7/2001 – 31/12/2001	Total
Acquisition of computer software, computer hardware and other equipment					
Computer software	300	200	100	100	700
Computer hardware	400	200	400	400	1,400
Other equipment	300	100			400
Market development					
Marketing campaigns	400	200			600
Advertising	1,100	500			1,600
Distributorship	400	400			800
Research and development					
Data broadcasting software	500	600	400	400	1,900
Data broadcasting hardware	1,000	400	600	600	2,600
Working capital					
Production of transmission modules for data broadcasting	5,300	2,700			8,000
Production of reception modules for data broadcasting					
— Financial TV set top boxes	1,500	1,500			3,000
— Multimedia TV set top boxes	3,000				3,000
Sourcing of contents for data broadcasting	1,500	1,000			2,500
General	150	150	150	150	600
Total	15,850	7,950	1,650	1,650	<u>27,100</u>

To the extent that the net proceeds of the Placing are not immediately required for the above purposes, it is the present intention of the Directors that they will be placed on short-term interest-bearing deposits with licensed banks in Hong Kong and/or the PRC.

If the Over-allotment Option is exercised in full, the Company will receive additional net proceeds of approximately \$5.1 million (based on the minimum Placing Price of \$1.18), after deducting commission and expenses attributable to the exercise of the Over-allotment Option. Should the net proceeds of the Placing exceed \$27.1 million, it is the present intention of the Directors that the relevant surplus be used as working capital for production of transmission modules for data broadcasting so as to expedite its expansion of strategic alliance with TV network operators and general working capital for the Group's Hong Kong liaison office.

It is the present intention of the Directors that the Group's business objectives for the year ending 31st December, 2002 will be financed by the Group's internal resources and/or bank financing.

PLACING STRUCTURE AND EXPENSES

THE PLACING

The Company is initially offering 30,000,000 Placing Shares at the Placing Price for subscription by way of placing. The 30,000,000 Placing Shares initially offered in the Placing will represent 40% of the issued share capital of the Company immediately following the completion of the Placing. In addition, the Company has granted to Oriental Patron the Over-allotment Option, exercisable by Oriental Patron at any time within 30 days from the date of this prospectus, to require the Company to issue up to an aggregate of 4,500,000 additional Shares, representing 15% of the Placing Shares initially offered in the Placing, on the same terms as those applicable under the Placing to cover over-allocations in the Placing. Oriental Patron may also cover such over-allocation by purchasing Shares in the secondary market and/or by obtaining or purchasing Shares from sources as Oriental Patron may deem appropriate (which may include stock borrowing arrangements) and/or by exercising the Over-allotment Option. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations and will not exceed 4,500,000 Shares. If the Over-allotment Option is exercised in full, the Placing Shares will represent approximately 43.4% of the issued share capital of the Company immediately following the completion of the Placing and exercise of the Over-allotment Option. The Placing is managed by Oriental Patron on a best effort basis and is not underwritten.

PLACING PROCEEDS

The net proceeds from the issue of the Placing, based on the minimum amount of \$35.4 million being raised under the Placing, assuming that the Over-allotment Option is not exercised, and after deducting related expenses, are estimated to be approximately \$27.1 million. If the Over-allotment Option is exercised in full, the Company will receive additional net proceeds of approximately \$5.1 million, after deducting brokerage, commission and expenses attributable to the exercise of the Over-allotment Option.

INVESTOR PROFILE

Under the Placing, Oriental Patron or selling agents nominated by it will conditionally place the Placing Shares with investors, which may include individual, professional and institutional investors, in Hong Kong and certain jurisdictions outside Hong Kong, in each case identified by Oriental Patron or selling agents nominated by it and in compliance with all applicable securities laws. No more than 20% of the Placing Shares will be made directly available to the general public.

BASIS OF ALLOCATION

Allocation of Placing Shares to investors pursuant to the Placing is based on a number of factors including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further Shares, or hold or sell its Shares, after the listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares or the establishment of a broad shareholder base to the benefit of the Company and its Shareholders as a whole.

No preferential treatment in relation to the allocation and pricing of the Placing Shares will be given to (1) the existing Shareholders or Directors and their respective associates or (2) the employees of the Group or (3) Oriental Patron or its associates.

PLACING STRUCTURE AND EXPENSES

MINIMUM PUBLIC FLOAT

As the 30,000,000 Placing Shares initially offered in the Placing will represent 40% of the issued share capital of the Company immediately following the completion of the Placing and Capitalisation Issue (assuming the Over-allotment Option is not exercised), the Company is required under the GEM Listing Rules to maintain at all times after its listing on GEM a public float of at least 20% of its issued share capital from time to time.

PLACING ARRANGEMENTS

Placing Agreement

The Company has entered into the Placing Agreement with, inter alios, Oriental Patron. Oriental Patron has agreed on a best effort basis to procure subscribers for the Placing Shares on the terms and conditions as set out in the Placing Agreement (subject to adjustment as described herein).

Oriental Patron has been granted the Over-allotment Option, exercisable by Oriental Patron for a period of 30 days from the date of this prospectus.

Grounds for termination

The obligations of Oriental Patron to procure subscribers for the Placing Shares on a best endeavour basis are subject to termination if any of the following events shall occur at any time prior to 9:00 a.m. (Hong Kong time) on 21st January, 2000, or such later time or date as may be agreed by Oriental Patron and the Company (in case the Placing Price is not determined on or before 17th January, 2000), but in any event not later than 9:00 a.m. (Hong Kong time) on 8th February, 2000:

- (a) any material breach of any of the Warranties (as defined in the Placing Agreement) comes to the knowledge of Oriental Patron or there has been a material breach of any other provision of the Placing Agreement or Oriental Patron has reasonable cause to believe that any such breach has occurred;
- (b) any event, which if it had occurred before the date of the Placing Agreement would have rendered any of the Warranties (as defined in the Placing Agreement) untrue, incorrect or misleading in any material respect, comes to the knowledge of Oriental Patron;
- (c) any material statement contained in this prospectus has become or been discovered to be untrue, incorrect or misleading in any respect;
- (d) matters have arisen or have been discovered which would, if this prospectus was to be issued at that time, constitute a material omission therefrom;
- (e) there is any material adverse change in the business or in the financial or trading position of any member of the Group which in the reasonable opinion of Oriental Patron is material in the context of the Placing; or
- (f) there shall have occurred, happened or come into effect any event or series of events concerning or relating to or otherwise having an effect on, or any change in, local, national or international financial, political, military, industrial, economic, legal, fiscal, regulatory or stock market matters or conditions or currency exchange rates or exchange controls

PLACING STRUCTURE AND EXPENSES

which will or may in the reasonable opinion of Oriental Patron be materially adverse to or materially prejudicially affect the Group or its prospects or the Placing or the success thereof.

EXPENSES

Oriental Patron will receive a placing commission of 3.5% on the Placing Price of all the Placing Shares.

The placing commission, listing fees, Stock Exchange transaction levy, legal and printing and other professional fees and other expenses relating to the Placing are estimated to amount to approximately \$8.3 million in total (based on the minimum amount which the Placing must be raised and assuming the Over-allotment Option is not exercised) and are payable by the Company.

Oriental Patron or its nominee will also be allotted the Remuneration Shares, being 2,025,000 Shares, as part consideration for the services provided or to be provided by Oriental Patron as referred to in the Placing Agreement. The Remuneration Shares represent approximately 2.7% of the issued share capital of the Company immediately after the completion of the Placing and Capitalisation Issue (assuming the Over-allotment Option is not exercised).

FIXING OF PLACING PRICE

The Placing Price will be determined in Hong Kong by Oriental Patron and the Company on or before 17th January, 2000, or such later date as may be agreed by Oriental Patron and the Company, but in any event not later than 1st February, 2000.

If, for any reason, the Placing Price is not determined on or before 17th January, 2000, the expected listing timetable will be postponed, but in any event the expected date of commencement of dealings in the Shares on GEM will not be later than 9th February, 2000.

If, for any reason, Oriental Patron and the Company are unable to reach agreement on the Placing Price by 17th January, 2000, or such later date as may be agreed by Oriental Patron and the Company, but in any event not later than 1st February, 2000, the Placing will not proceed.

PRICE PAYABLE ON SUBSCRIPTION

Placing Price plus 1% brokerage and a 0.011% Stock Exchange transaction levy make up the total price payable on subscription.

CONDITIONS OF THE PLACING

The Placing is conditional upon:

1. Listing

The GEM Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued under the Placing and the Capitalisation Issue and any Shares which may be issued pursuant to the exercise of the Over-allotment Option and upon the exercise of options granted under the Share Option Scheme on GEM (and such listing and permission not subsequently being revoked prior to the commencement of dealings in the Shares on GEM).

PLACING STRUCTURE AND EXPENSES

2. Placing Agreement

The obligations of Oriental Patron under the Placing Agreement becoming unconditional and not being terminated at any time prior to 9:00 a.m. (Hong Kong time) on 21st January, 2000, or such later date as may be agreed by Oriental Patron and the Company in accordance with the terms of that agreement or otherwise.

3. Determination of Placing Price

The Placing Price being determined by the Company and Oriental Patron no later than 17th January, 2000 or such later date as may be agreed by Oriental Patron and the Company, but in any event not later than 1st February, 2000.

4. Minimum Subscription

A minimum amount of \$35.4 million being raised under the Placing and the relevant consideration being received before the commencement of dealings in the Shares on GEM.

If any of these conditions is not fulfilled on or before 21st January, 2000, or such later date as may be agreed by Oriental Patron and the Company (in case the Placing Price is not determined on or before 17th January, 2000), but in any event not later than 8th February, 2000, the Placing will not proceed and all monies paid by the investors under the Placing will be returned without interest. The terms on which monies will be returned are set out under the placing letter in respect of the Placing.

Pursuant to section 342B(1) of the Companies Ordinance, it shall not be lawful for any person to issue, circulate or distribute in Hong Kong this prospectus if it does not have the effect, where an application is made in pursuance thereof, of rendering all persons concerned bound by all the provisions of sections 44A and 44B of the Companies Ordinance so far as applicable. Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application in pursuance of the prospectus will be void if permission for listing of, and dealing in, the Shares on GEM has been refused before the expiration of three weeks from the date of the closing of the subscription lists or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange. According to the timetable set out in the section headed “Expected Timetable” in this prospectus, no allotment of Shares shall be made before 20th January, 2000.

SPONSOR'S INTEREST

SPONSOR'S INTEREST IN THE COMPANY

Pacific Top, an associate of Oriental Patron nominated by Oriental Patron, will beneficially own the Remuneration Shares, being 2,025,000 Shares which represent 2.7% of the issued share capital of the Company, immediately after the completion of the Placing and Capitalisation Issue.

Oriental Patron or its associates may subscribe, as principal, for or purchase up to 1,600,000 Placing Shares under the Placing, representing approximately 5.3% of the 30,000,000 Placing Shares initially at the Placing Price offered under the Placing. No preferential treatment as to allocation and pricing of the Placing Shares shall be given to Oriental Patron or its associates who may subscribe for or purchase the Placing Shares under the Placing. Should Oriental Patron and its associates subscribe for and be allotted a total of 1,600,000 Placing Shares under the Placing, Oriental Patron and its associates will beneficially own a total of 3,625,000 Shares which represent approximately 4.8% of the issued share capital of the Company immediately after completion of the Placing and Capitalisation Issue (before the exercise of the Over-allotment Option).

ENTITLEMENT OF BENEFIT

The Sponsor or its associates will receive the following upon the listing of the Company on GEM:

1. the Remuneration Shares;
2. a placing commission of 3.5% on the Placing Price of all the Placing Shares; and
3. a monthly advisory fee under a sponsor agreement dated 27th September, 1999 between the Sponsor and the Company in connection with services to be rendered by the Sponsor pursuant to Rules 6.01 and 17.81 of the GEM Listing Rules.

DIRECTORSHIP IN THE GROUP

Mr. Chan Nap Kee Joseph, a director of the Sponsor was a director of Verified Solutions from 13th May, 1999 to 30th September, 1999.

For the purpose of Rule 6.36 of the GEM Listing Rules, the Sponsor confirms that, save as disclosed in this prospectus:

- (1) neither itself nor its associates (as defined in the GEM Listing Rules) have or may, as a result of the listing or transaction, have any interest in any class of securities of the Company, or any other company within the Group (including options or rights to subscribe such securities);
- (2) no director or employee of the Sponsor who is involved in providing advice to the Company has or may, as a result of the listing or transaction, have any interest in any class of securities of the Company or any other company within the Group (including options or rights to subscribe such securities);
- (3) neither itself nor its associates expect to have accrued any material benefit as a result of the successful outcome of the listing or transaction, including the repayment of material outstanding indebtedness; and
- (4) no director or employee of the Sponsor has a directorship in the Company or any other company within the Group.

The following is the text of an accountants' report, prepared for the purpose of incorporation in this prospectus, received from the reporting accountants of the Company, Ernst & Young, Certified Public Accountants, Hong Kong:



15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

17th January, 2000

The Directors
China Data Broadcasting Holdings Limited
Oriental Patron Asia Limited

Dear Sirs,

We set out below our report on the financial information regarding China Data Broadcasting Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the two years ended 31st December, 1998 and the six months ended 30th June, 1999 (the “Relevant Period”), for inclusion in the prospectus of the Company dated 17th January, 2000 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in Bermuda on 22nd September, 1999 under the Companies Act 1981 of Bermuda (as amended) for the purpose of acting as a holding company of the subsidiaries set out in Section 1 below. Pursuant to the Group reorganisation, as further described in the paragraph headed “Corporate reorganisation” in Appendix IV of the Prospectus, the Company acquired from its immediate holding company, Ultra Challenge Limited, the entire issued share capital of Verified Solutions Group Limited (“Verified Solutions”), which holds a 70% interest in Tianjin Tiancai Network Software Co., Ltd. (“Tiancai Network”). The principal business of Tiancai Network is data broadcasting (the “Data Broadcasting Business”).

We have audited the financial information of the Data Broadcasting Business for the Relevant Period in accordance with Auditing Standards and Guidelines issued by the Hong Kong Society of Accountants (the “HKSA”). No audited financial statements have been prepared for the Company, Verified Solutions or Tiancai Network since the dates of their incorporation/establishment. We have, however, performed our own independent review of all relevant transactions of these companies since the dates of their incorporation/establishment.

We have prepared this report in accordance with the Auditing Guideline “Prospectuses and the reporting accountant” issued by the HKSA.

The summaries of the pro forma combined results of the Group for the Relevant Period and of the pro forma combined net assets of the Group as at 30th June, 1999 (the “Summaries”) set out in this report have been prepared based on the audited and management financial information of the Data Broadcasting Business and the companies now comprising the Group and are presented on the basis set out in Section 1 below.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the pro forma combined results of the Group for the Relevant Period and of the pro forma combined net assets of the Group as at 30th June, 1999.

1. BASIS OF PRESENTATION

The pro forma combined results of the Group include the results of the companies now comprising the Group as if the current Group structure had been in existence throughout the Relevant Period. However, no notional interest income on the registered capital of US\$140,000 contributed by Verified Solutions into Tiancai Network has been reflected in the pro forma combined results of the Group for the Relevant Period. Had notional interest income been deemed to have been earned as if the aforesaid registered capital was contributed on 1st January, 1997, the pro forma combined results of the Group for the years ended 31st December, 1997 and 1998 and the six months ended 30th June, 1999 would be improved by \$81,000, \$66,000 and \$23,000, respectively. The pro forma combined net assets of the Group include the assets and liabilities of the companies now comprising the Group as at 30th June, 1999 as if the current Group structure was in place on that date. All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, both of which have substantially similar characteristics to a private company incorporated in Hong Kong, the particulars of which are set out below:

<u>Company</u>	<u>Place and date of incorporation/ registration</u>	<u>Issued and paid-up capital/ registered capital</u>	<u>Attributable equity interest</u>	<u>Principal activities</u>
Verified Solutions Group Limited	British Virgin Islands 18th February, 1999	US\$10,000 Ordinary	100%	Investment holding
Tianjin Tiancai [#] Network Software Co., Ltd. (“Tiancai Network”)	People’s Republic of China 18th June, 1999	US\$200,000	70%	Provision of data broadcasting services and sale of related hardware and software

[#] indirectly held by the Company

Tiancai Network is a Sino-foreign co-operative joint venture established in the People’s Republic of China (the “PRC”) on 18th June, 1999 with a tenure of 15 years. Subsequent to 30th June, 1999, pursuant to the joint venture agreement, the Group contributed cash of US\$140,000 and the PRC joint venture partner, Genius Co., Ltd (“Genius”), contributed the Full Channel Data Broadcasting Technology (the “Technology”), the Data Broadcasting Business together with the relevant assets and liabilities, with an aggregate value of US\$60,000 for 70% and 30% interest in Tiancai Network, respectively. Tianjin University is a substantial shareholder of Genius.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with Statements of Standard Accounting Practice issued by the HKSA, are set out below:

Joint venture company

The joint venture company is an independent business entity established and operating in the PRC. The joint venture agreement and related constitution stipulate the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which assets are to be realised upon its dissolution. The profits and losses from operations and any distribution of surplus assets are shared between the joint venture partners in proportion to their respective interests of the joint venture.

The joint venture company is accounted for as a subsidiary as the Group has control over the joint venture company.

Capital reserve

Capital reserve arising on the acquisition of the Technology and the Data Broadcasting Business represents the excess of the Group's interest in the fair values ascribed to its identifiable net assets over the consideration paid by the Group.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after a fixed asset has been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the proceeds on disposition and the carrying amount of the relevant asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset, less its estimated residual value, over its estimated useful life. The effective annual rate used for this purpose is as follows:

Furniture, fixtures and equipment	16%
-----------------------------------	-----

Intangible asset

Intangible asset represents the cost of acquiring the Technology. It is stated at cost less accumulated amortisation unless, in the opinion of the directors, there has been a permanent diminution in value, when it is written down to a value determined by the directors.

Amortisation is calculated on the straight-line basis over the estimated economic life of the intangible asset, subject to a maximum period of five years commencing from 1st July, 1999. No amortisation of intangible asset was taken in the Relevant Period as the intangible asset had not been brought into economic use and it was included in the Group's combined net assets as at 30th June, 1999 on a pro forma basis.

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Development costs are capitalised and deferred only when the projects are clearly defined, the costs are separately identified and there is reasonable certainty that the projects are technically feasible and the products have commercial value. Development expenditure which does not meet these criteria is expensed when incurred.

Costs so deferred are amortised on the straight-line basis over the expected economic useful life of the products, subject to a maximum period of five years commencing in the year when the products are put into commercial production.

Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessors are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, subcontracting charges and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less further costs expected to be incurred to completion and disposal.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Foreign currencies

On combination, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Deferred taxation

Deferred taxation is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (ii) on the rendering of data broadcasting and related services, when such services are rendered; and
- (iii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Pension costs

Pension costs are charged to the profit and loss account as incurred.

3. RESULTS

The following is a summary of the pro forma combined results of the Group for the Relevant Period prepared on the basis set out in Section 1 above:

		Year ended		Six months
		31st December,		ended
		1997	1998	30th June,
	<i>Notes</i>	<i>\$'000</i>	<i>\$'000</i>	1999
				<i>\$'000</i>
Turnover	(a)	293	7,294	4,324
Cost of sales		<u>(222)</u>	<u>(5,770)</u>	<u>(3,943)</u>
Gross profit		71	1,524	381
Selling expenses		(12)	(315)	(262)
General and administrative expenses		<u>(186)</u>	<u>(480)</u>	<u>(305)</u>
Profit/(loss) before taxation	(b)	(127)	729	(186)
Taxation	(e)	<u>—</u>	<u>—</u>	<u>—</u>
Profit/(loss) before minority interests		(127)	729	(186)
Minority interests		<u>38</u>	<u>(219)</u>	<u>56</u>
Net profit/(loss) attributable to shareholders		<u>(89)</u>	<u>510</u>	<u>(130)</u>
Earnings/(loss) per share	(g)	<u>(0.20) cents</u>	<u>1.13 cents</u>	<u>(0.29) cents</u>

Notes:

(a) **Turnover and revenue**

Turnover represents the invoiced value of goods sold and services rendered, net of value-added tax, business tax and government surcharges, and after allowance for goods returned and trade discounts.

Revenue from the following activities has been included in turnover:

	Year ended		Six months
	31st December,		ended
	1997	1998	30th June,
	\$'000	\$'000	1999
			\$'000
Sale of data broadcasting hardware and software	294	6,925	4,095
Income from provision of data broadcasting and related services	—	423	264
	294	7,348	4,359
Less: Business tax and government surcharges	(1)	(54)	(35)
	<u>293</u>	<u>7,294</u>	<u>4,324</u>

Business tax is calculated at 5% of service revenue. Government surcharges, comprising City Development Tax and Education Supplementary Tax, are calculated at 7% and 3% of the business tax and net VAT payable, respectively.

(b) **Profit/(loss) before taxation**

Profit/(loss) before taxation is arrived at after charging:

	Year ended		Six months
	31st December,		ended
	1997	1998	30th June,
	\$'000	\$'000	1999
			\$'000
Salaries and related staff costs	127	336	418
Pension contributions	20	54	68
	<u>147</u>	<u>390</u>	<u>486</u>
Cost of inventories sold	222	5,137	2,978
Auditors' remuneration	1	15	12
Depreciation	7	15	12
Operating lease rentals in respect of land and buildings	—	61	56
Research and development expenditure	<u>186</u>	<u>270</u>	<u>160</u>

(c) Director's remuneration

Details of the remuneration paid to one executive director during the Relevant Period are as follows:

	Year ended		Six months
	31st December,		ended
	1997	1998	30th June,
	\$'000	\$'000	1999
			\$'000
Fees	—	—	—
Other emoluments:			
Salaries and allowances	22	32	16
Pension contributions	4	6	3
	<u>26</u>	<u>38</u>	<u>19</u>

The number of directors whose remuneration fell within the following band is as follows:

	Year ended		Six months
	31st December,		ended
	1997	1998	30th June,
			1999
Nil – \$1,000,000	<u>7</u>	<u>7</u>	<u>7</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

(d) Five highest paid employees

The five highest paid employees of the Group included one director for each of the two years ended 31st December, 1998, and for the six months ended 30th June, 1999. Information relating to this director's emoluments has been disclosed above. The emoluments paid to the remaining four highest paid, non-director employees during the Relevant Period are set out below:

	Year ended		Six months
	31st December,		ended
	1997	1998	30th June,
	\$'000	\$'000	1999
			\$'000
Salaries and allowances	75	73	57
Pension contributions	15	15	11
	<u>90</u>	<u>88</u>	<u>68</u>

The number of highest paid, non-director employees whose remuneration fell within the following band is as follows:

	Year ended 31st December,		Six months ended 30th June,
	1997	1998	1999
Nil – \$1,000,000	<u>4</u>	<u>4</u>	<u>4</u>

During the Relevant Period, no emoluments had been paid by the Group to the directors or the other highest paid, non-director employees as a bonus, as an inducement to join the Group, or as compensation for loss of office.

(e) Taxation

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong during the Relevant Period.

Prior to the Group reorganisation, the Data Broadcasting Business of Tiancai Network was carried on by Genius. Genius, a joint stock limited liability company with its "A" shares listed on the Shenzhen Stock Exchange, is situated in an approved high-technology development zone and is a high-technology enterprise. According to the relevant tax rules and regulations in the PRC, Genius was exempted from income tax for the two fiscal years commencing in November 1997 and ended on 31st December, 1998 and, thereafter, is taxable at a concessionary income tax rate of 15%. Prior to November 1997, pursuant to an approval document issued by the relevant PRC tax authorities, no income tax was payable by Tiancai Information System Engineering Centre of Tianjin University, the predecessor of Genius, as it was wholly-owned by Tianjin University in the PRC.

Under the Income Tax Law of the PRC, Tiancai Network is subject to an income tax rate of 33%. Pursuant to an approval document issued by Tianjin High-tech Industry Park State Tax Bureau, Tiancai Network is exempted from income tax for the first two profitable years of operations and thereafter, is entitled to a 50% relief from income tax for the following three years.

The Group did not have any significant unprovided deferred tax liabilities in respect of the Relevant Period.

(f) Dividend

No dividend has been paid or declared by the Company or any of its subsidiaries during the Relevant Period.

(g) Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share for the Relevant Period is based on the net profit/(loss) attributable to shareholders of the relevant years/period and on the 45,000,000 shares in issue during the Relevant Period on the assumption that the Group reorganisation had been completed on 1st January, 1997.

(h) Related party transactions

During the Relevant Period, the Group had the following material transactions in the normal course of business with related companies:

CONTINUING TRANSACTIONS

Name of related party	Nature of transactions	Year ended		Six months
		31st December,	1998	ended 30th June,
		1997	1998	1999
		\$'000	\$'000	\$'000
Genius and its subsidiary	Rental of office premises	—	61	56
	Purchases of goods	<u>3</u>	<u>576</u>	<u>327</u>

DISCONTINUED TRANSACTIONS

Name of related party	Nature of transactions	Year ended		Six months
		31st December,	31st December,	ended
		1997	1998	30th June,
		\$'000	\$'000	1999
				\$'000
Tianjin University and its associates	Subcontracting fees paid	17	387	—
Genius' subsidiaries	Sale of goods	—	720	—

In the opinion of the directors, the rental expenses paid to Genius in 1999 and the goods purchased from a subsidiary of Genius during the Relevant Period were at rates approximating open market rates. All other transactions were conducted on basis of rates agreed between the Group and the related companies.

In addition to the above related party transactions, during the Relevant Period, Tiancai Network was also granted the right to use the "Tiancai" trademark in the normal course of business by Genius for no consideration.

On 1st July, 1999 and 8th January, 2000, 1999, Tiancai Network entered into various contracts with Genius and its subsidiary for the rental of certain properties, for the purchase of software, for the production of TV set top boxes, and for the use of the "Tiancai" trademark. Further details of these contracts are set out in section 7 of this report and in the paragraph headed "Continuing Connected Transaction under the section headed "Business" in the Prospectus.

4. NET ASSETS

The following is a summary of the pro forma combined net assets of the Group as at 30th June, 1999 and is prepared on the basis set out in Section 1 above:

	<i>Notes</i>	<i>\$'000</i>
FIXED ASSETS	(a)	637
INTANGIBLE ASSET	(b)	511
CURRENT ASSETS		
Accounts receivable	(c)	732
Inventories	(d)	211
Other debtor	(e)	<u>1,085</u>
		<u>2,028</u>
CURRENT LIABILITIES		
Accounts payable		1,100
Other payables		<u>88</u>
		<u>1,188</u>
NET CURRENT ASSETS		<u>840</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,988
MINORITY INTERESTS		<u>(596)</u>
NET ASSETS		<u><u>1,392</u></u>

Notes:

(a) Fixed assets

	At cost	Accumulated depreciation	Net book value
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
Furniture, fixtures and equipment	<u>662</u>	<u>25</u>	<u>637</u>

(b) Intangible asset

Intangible asset represents the cost of acquiring the Technology from Genius, which was valued by Sallmanns (Far East) Limited, a firm of chartered surveyors and independent valuers, at RMB547,000 (\$511,000) as at 30th June, 1999, on a market value basis.

The address of Sallmanns (Far East) Limited is set out in the section headed "Directors and parties involved in the Placing" in the Prospectus.

(c) Accounts receivable

Included in the balance is an amount of \$474,000 due from certain subsidiaries of Genius which arose from normal trading activities and were fully settled subsequent to 30th June, 1999.

(d) Inventories

	\$'000
Finished goods	<u>211</u>

(e) Other debtor

This represents the cash contribution of US\$140,000 deemed to have been made by the Group into Tiancai Network which is reflected in the pro forma combined net assets of the Group as at 30th June, 1999 as if the current Group structure was in place at that date.

(f) Reserves

Movement in the reserve of the Group during the Relevant Period is as follows:

	\$'000
Capital reserve:	
At 1st January, 1997	—
Movement during the Relevant Period	<u>307</u>
At 30th June, 1999	<u>307</u>

(g) Commitments*Capital commitments*

	\$'000
Authorized but not contracted for	<u>2,500</u>

(h) Contingent liabilities

As at 30th June, 1999, the Group had no material contingent liabilities.

(i) Net assets of the Company

The Company was incorporated on 22nd September, 1999. On the basis set out in Section 1 above, the net assets of the Company as at 30th June, 1999 would have been approximately \$1,392,000, representing the Company's investment in its subsidiaries.

(j) Distributable reserves

As at 30th June, 1999, the Company had not been incorporated and hence there was no reserve available for distribution to the shareholders of the Company on that date.

5. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of the Relevant Period by the Company or any of the companies now comprising the Group to the directors of the Company.

Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments payable to the directors for the year ending 31st December, 2000 will be approximately \$480,000, payable under directors' service contracts, the terms of which are set out in the section headed "Further information about Directors, management, staff and experts" in Appendix IV of the Prospectus.

6. ULTIMATE HOLDING COMPANY

In the opinion of the directors, the ultimate holding company of the Company is Ultra Challenge Limited, which is incorporated in the British Virgin Islands with limited liability.

7. SUBSEQUENT EVENTS

The following events took place subsequent to 30th June, 1999:

- (a) on 1st July, 1999 Tiancai Network entered into a tenancy agreement with Genius, whereby Genius agreed to lease to Tiancai Network office premises, together with fixtures therein, at a rental of, inclusive of water and electricity charges, air-conditioning, heat charges and management fee for a period from 1st July, 1999 to 31st December, 2001. The annual rental for the period from 1st July, 1999 to 31st December, 2000 is approximately RMB171,550 and the rental for the year ending 31st December, 2001 is subject to review by both parties;
- (b) on 8th January, 2000, Tiancai Network entered into a license agreement with Genius, whereby Tiancai Network is licensed by Genius to use the "Tiancai" trademark owned by Genius free of charge as long as Genius holds at least 20% equity interests in Tiancai Network;
- (c) on 8th January, 2000, Tiancai Network entered into certain connected transaction agreements with Genius and its subsidiary, the details of which are set out in the paragraph headed "Continuing Connected Transactions" under the section headed "Business" in the Prospectus; and
- (d) on 11th January, 2000, the companies now comprising the Group underwent a corporate reorganisation in preparation for the listing of the shares of the Company on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The details of the corporate reorganisation are set out in the paragraph headed "Corporate reorganisation" in Appendix IV of the Prospectus. As a result of the reorganisation, the Company became the holding company of the Group on 11th January, 2000;

Save as aforesaid, no other material significant events have taken place subsequent to 30th June, 1999.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30th June, 1999.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with their valuations as at 31st October, 1999 of the property interests of the Company.



CHARTERED SURVEYORS, PROPERTY CONSULTANTS
LAND, BUILDING, PLANT & MACHINERY VALUERS
FINANCIAL AND INTANGIBLE ASSET VALUERS

15/F Trinity House
165-171 Wanchai Road
Hong Kong
Tel : (852) 2169 6000
Fax : (852) 2528 5079

17th January, 2000

The Directors
China Data Broadcasting Holdings Limited
Unit A, 2nd Level
No. 3 Hua Tian Road
Huayuan Industry Area
Tianjin Hi-tech Industry Park
Tianjin
The PRC

Dear Sirs,

In accordance with your instructions to value the properties in which China Data Broadcasting Holdings Limited (the “Company”), and its subsidiaries (together the “Group”) have interests, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the relevant properties as at 31st October, 1999.

Our valuations of the interests of the properties are our opinion of the open market value which we would define as intended to mean “the best price at which an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of the valuation assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (*having regard to the nature of the property and the state of the market*) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuations have been made on the assumption that the owner sells the properties on the open market in their existing state without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the properties.

Based on this open market approach, the property interests rented by the Group have no commercial value due mainly to the short term nature or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents or the insufficient proof of legal title to the properties.

In valuing the property interests in the PRC, we have complied with all the requirements contained in the Chapter 8 to the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited.

We have not carried out detailed site measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the documents and official plans handed to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurements have been taken.

We have not searched the title of the properties and have not scrutinised the original title documents. We have been given a copy of the tenancy agreement under which the Company rented the properties.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rentals, licenses, site and floor areas and all other relevant matters.

We have inspected the exterior and, where possible, the interior of the properties, in respect of which we have been provided with such information as we have required for the purpose of our valuation. However, no structural survey has been made, but in the course of our inspection we did not note any apparent serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their value.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We have also sought and received confirmation from the Company that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

Our valuations are summarised below and the valuation certificate is attached.

Yours faithfully,
for and on behalf of
SALLMANNS (FAR EAST) LIMITED
Paul L. Brown
BSc FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has extensive experience in valuation of properties in Hong Kong, the PRC, the United Kingdom and Asia-Pacific region.

SUMMARY OF VALUE

GROUP I — PROPERTY INTEREST UNDER A LICENCE TO BE RENTED BY THE GROUP
IN HONG KONG

Property	Open market value attributable to the Group as at 31st October, 1999 <i>HK\$</i>
1. Office premises 6th Floor Hing Yip Commercial Centre 272–284 Des Voeux Road Central Hong Kong	No Commercial Value
Sub-total	Nil

GROUP II — PROPERTY INTEREST RENTED BY THE COMPANY IN THE PRC

Property	Open market value attributable to the Company as at 31st October, 1999 <i>HK\$</i>
2. Office premises Unit A, 2nd Level No. 3 Hua Tian Road Huayuan Industry Area Tianjin Hi-tech Industry Park Tianjin The PRC	No Commercial Value
Sub-total	Nil
Grand total	Nil

VALUATION CERTIFICATE

GROUP I — PROPERTY INTEREST UNDER A LICENCE TO BE RENTED BY THE GROUP
IN HONG KONG

Property	Description	Particulars of occupancy	Open market value in existing state as at 31st October, 1999 <i>HK\$</i>
1. Office premises 6th Floor Hing Yip Commercial Centre 272-284 Des Voeux Road Central Hong Kong	<p>The property comprises an office accommodation with a saleable floor area of 243.48 sq.m. on the 6th Floor of a 23-storey commercial building completed in about 1984.</p> <p>The property is rented by the Group under a licence agreement for a term of 1 year commencing from 1st December, 1999 to 30th November, 2000 (both days inclusive) at a monthly licence fee of HK\$12,000 inclusive of management fee, government rent and rates, utilities including water, electricity, local telephone and facsimile charges (not including long distance telephone and facsimile charges), use of furniture, fixtures and office equipment and conference room, and provision of general secretarial services.</p>	As at the valuation date, the property is to be occupied by the Group as an office.	No commercial value

GROUP II — PROPERTY INTEREST RENTED BY THE COMPANY IN THE PRC

Property	Description and Tenure	Particulars of occupancy	Open market value in existing state as at 31st October, 1999 HK\$
2 Office premises Unit A, 2nd Level No. 3 Hua Tian Road Huayuan Industry Area Tianjin Hi-tech Industry Park Tianjin The PRC	The property comprises an office accommodation on the 2nd Level of the building with a total gross floor area of 235 sq.m. (2,530 sq.ft.) or thereabouts. The building is a 6-storey office building completed in about 1998.	The property is currently occupied by the Company as an office.	No commercial value
	The property is rented by a 70%-owned subsidiary of the Company for a term from 1st July, 1999 to 31st December, 2001 from Genius Co., Ltd. at a rental inclusive of water and electricity charges, air-conditioning, heat charges and management fee. The annual rental for the period from 1st July, 1999 to 31st December 2000 is approximately RMB171,550 and the rental for the year ending 31st December, 2001 is subject to review by both parties.		

Notes:

1. Pursuant to a tenancy agreement dated 8th January, 2000 made between Genius Co., Ltd. (天津天大天財股份有限公司) (“Genius”) and Tianjin Tiancai Network Software Company Limited (天津天財網絡軟件有限公司) (“Tianjin Network”), the property is leased at a rental inclusive of water and electricity charges, air-conditioning, heat charges and management fee. The annual rental for the period from 1st July, 1999 to 31st December 2000 is approximately RMB171,550 and the rental for the year ending 31st December, 2001 is subject to review by both parties.
2. Tianjin Network is a Sino-foreign cooperative joint venture enterprise established in the PRC, owned as to 70% by Verified Solutions Group Limited, a wholly owned subsidiary of the Company, and as to 30% by Genius.

Set out below is a summary of certain provisions of the memorandum of association (the “Memorandum of Association”) and bye-laws (the “Bye-laws”) of the Company and of certain aspects of Bermuda company law.

1. MEMORANDUM OF ASSOCIATION

The Memorandum of Association states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the Company is an exempted company as defined in the Companies Act. The Memorandum of Association also sets out the objects for which the Company was formed, including acting as a holding and investment company, and its powers, including the powers set out in the First Schedule to the Companies Act, excluding paragraph 8 thereof. As an exempted company, the Company will be carrying on business outside Bermuda from a place of business within Bermuda.

In accordance with and subject to section 42A of the Companies Act, the Memorandum of Association empowers the Company to purchase its own shares and pursuant to its Bye-laws, this power is exercisable by the board of Directors (the “board”) upon such terms and subject to such conditions as it thinks fit.

2. BYE-LAWS

The Bye-laws were adopted on 11th January, 2000. The following is a summary of certain provisions of the Bye-laws:

(a) Directors

(i) Power to allot and issue shares and warrants

Subject to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Act, any preference shares may be issued or converted into shares that are liable to be redeemed, at a determinable date or at the option of the Company or, if so authorised by the Memorandum of Association, at the option of the holder, on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution determine. The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Act, the Bye-laws and, where applicable, the rules of any Designated Stock Exchange (as defined in the Bye-laws) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any of its subsidiaries

There are no specific provisions in the Bye-laws relating to the disposal of the assets of the Company or any of its subsidiaries.

Note: The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Bye-laws or the Companies Act to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are no provisions in the Bye-laws relating to the making of loans to Directors. However, the Companies Act contains restrictions on companies making loans or providing security for loans to their directors, the relevant provisions of which are summarised in the paragraph headed “Bermuda Company Law” in this Appendix.

(v) Financial assistance to purchase shares of the Company

Neither the Company nor any of its subsidiaries shall directly or indirectly give financial assistance to a person who is acquiring or proposing to acquire shares in the Company for the purpose of that acquisition whether before or at the same time as the acquisition takes place or afterwards, provided that the Bye-laws shall not prohibit transactions permitted under the Companies Act.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of auditor of the Company) in conjunction with his office of Director for such period and, subject to the Companies Act, upon such terms as the board may determine, and may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Bye-laws. A Director may be or become a director or other officer of, or a member of, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member

of, or from his interest in, such other company. Subject as otherwise provided by the Bye-laws, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Act and to the Bye-laws, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving by the Company of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (dd) any contract or arrangement in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his interest in shares or debentures or other securities of the Company;

- (ee) any contract or arrangement concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any Designated Stock Exchange (as defined in the Bye-laws)) is beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived); or
- (ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vii) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such remuneration (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably incurred or expected to be incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration provided for by or pursuant to any other Bye-law. A Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependants or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependants, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependants are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not greater than one third) will retire from office by rotation provided that no Director holding office as chairman and/or managing director shall be subject to retirement by rotation, or be taken into account in determining the number of Directors to retire. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Note: There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or, subject to authorisation by the members in general meeting, as an addition to the existing board but so that the number of Directors so appointed shall not exceed any maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) provided that the notice of any such meeting convened for the purpose of removing a Director shall contain a statement of the intention to do so and be served on such Director 14 days before the meeting and, at such meeting, such Director shall be entitled to be heard on the motion for his removal. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors unless otherwise determined from time to time by members of the Company.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period (subject to their continuance as Directors) and upon such terms as the board may determine and the board may revoke or terminate any of such appointments (but without prejudice to any claim for damages that such Director may have against the Company or vice versa). The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time

revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(ix) **Borrowing powers**

The board may from time to time at its discretion exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Act, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Bye-laws in general, can be varied with the sanction of a special resolution of the Company.

(b) Alterations to constitutional documents

The Bye-laws may be rescinded, altered or amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association, to confirm any such rescission, alteration or amendment to the Bye-laws or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Act:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum of Association;
- (v) change the currency denomination of its share capital;
- (vi) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (vii) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may, by special resolution, subject to any confirmation or consent required by law, reduce its authorised or issued share capital or any share premium account or other undistributable reserve in any manner permitted by law.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Act, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Bye-laws relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons (or in the case of a member being a corporation, its duly authorised representative) holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person (or in the case of a member being a corporation, its duly authorised representative) or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

(e) Special resolution-majority required

A special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Bye-laws, at any general meeting on a show of hands, every member who is present in person (or being a corporation, is present by its duly authorised representative) or by proxy shall have one vote and on a poll every member present in person or by proxy or, being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share.

Notwithstanding anything contained in the Bye-laws, where more than one proxy is appointed by a member which is a clearing house (as defined in the Bye-laws) (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year other than the year in which its statutory meeting is convened at such time (within a period of not more than 15 months after the holding of the last preceding annual general meeting unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Bye-laws)) and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the provisions of the Companies Act or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or, subject to the Companies Act, at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right of inspecting any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

Subject to the Companies Act, a printed copy of the Directors' report, accompanied by the balance sheet and profit and loss account, including every document required by law to be annexed thereto, made up to the end of the applicable financial year and containing a summary of the assets and liabilities of the Company under convenient heads and a statement of income and expenditure, together with a copy of the auditors' report, shall be sent to each person entitled thereto at least 21 days before the date of the general meeting and laid before the Company in general meeting in accordance with the requirements of the Companies Act provided that this provision shall not require a copy of those documents to be sent to any person whose address the Company is not aware of or to more than one of the joint holders of any shares or debentures.

Subject to the Companies Act, at the annual general meeting or at a subsequent special general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the members appoint another auditor. Such auditor may be a member but no Director or officer or employee of the Company shall, during

his continuance in office, be eligible to act as an auditor of the Company. The remuneration of the auditor shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than Bermuda. If the auditing standards of a country or jurisdiction other than Bermuda are used, the financial statements and the report of the auditor should disclose this fact and name such country and jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any special general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least 21 clear days' notice in writing, and any other special general meeting shall be called by at least 14 clear days' notice (in each case exclusive of the day on which the notice is given or deemed to be given and of the day for which it is given or on which it is to take effect). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in Bermuda or such other place in Bermuda at which the principal register is kept in accordance with the Companies Act.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Bye-laws) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in an appointed newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Bye-laws), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Bye-laws supplement the Company's Memorandum of Association (which gives the Company the power to purchase its own shares) by providing that the power is exercisable by the board upon such terms and conditions as it thinks fit.

(l) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Bye-laws relating to ownership of shares in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Act, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board. The Company in general meeting may also make a distribution to its members out of contributed surplus (as ascertained in accordance with the Companies Act). No dividend shall be paid or distribution made out of contributed surplus if to do so would render the Company unable to pay its liabilities as they become due or the realisable value of its assets would thereby become less than the aggregate of its liabilities and its issued share capital and share premium account.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be

apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to a member by the Company on or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member who is an individual or a member which is a corporation shall be entitled to exercise the same powers on behalf of the member which he or they represent as such member could exercise.

(o) Call on shares and forfeiture of shares

Subject to the Bye-laws and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the

same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than 14 clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding 20% per annum as the board determines.

(p) Inspection of register of members

The register and branch register of members shall be open to inspection between 10:00 a.m. and 12:00 noon on every business day by members without charge, or by any other person upon a maximum payment of five Bermuda dollars, at the registered office or such other place in Bermuda at which the register is kept in accordance with the Companies Act or, upon a maximum payment of \$10, at the Registration Office (as defined in the Bye-laws), unless the register is closed in accordance with the Companies Act.

(q) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Bye-laws relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Bermuda law, as summarised in paragraph 4(e) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Act, divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

The Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Bye-laws) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Bye-laws), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Bye-laws) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Other provisions

The Bye-laws provide that to the extent that it is not prohibited by and is in compliance with the Companies Act, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

The Bye-laws also provide that the Company is required to maintain at its registered office a register of directors and officers in accordance with the provisions of the Companies Act and such register is open to inspection by members of the public without charge between 10:00 a.m. and 12:00 noon on every business day.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND BYE-LAWS

The Memorandum of Association may be altered by the Company in general meeting. In certain circumstances, consent to the alteration must be obtained from the Minister of Finance of Bermuda. The Bye-laws may be amended by the Directors subject to the confirmation of the Company in general meeting. The Bye-laws state that a special resolution shall be required to alter the provisions of the Memorandum of Association or to confirm any amendment to the Bye-laws or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

4. BERMUDA COMPANY LAW

The Company is incorporated in Bermuda and, therefore, operates subject to Bermuda law. Set out below is a summary of certain provisions of Bermuda company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Bermuda company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Share capital

The Companies Act provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account", to which the provisions of the Companies Act relating to a reduction of share capital of a company shall apply as if the share premium account were paid up share capital of the company except that the share premium account may be applied by the company:

- (i) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (ii) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (iii) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

However, only premiums arising on the same class of shares can be used to pay up bonus shares or in providing for the premiums payable on redemption of shares referred to in (i) and (iii) above respectively.

In the case of an exchange of shares the excess value of the shares acquired over the nominal value of the shares being issued may be credited to a contributed surplus account of the issuing company.

The Companies Act permits a company to issue preference shares and subject to the conditions stipulated therein to convert those preference shares into redeemable preference shares.

The Companies Act includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. Where provision is made by the memorandum of association or bye-laws for authorising the variation of rights attached to any class of shares in the company, the consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required, and where no provision for varying such rights is made in the memorandum of association or bye-laws and nothing therein precludes a variation of such rights, the written consent of the holders of three-fourths of the issued shares of that class or the sanction of a resolution passed as aforesaid is required.

(b) Financial assistance to purchase shares of a company or its holding company

A company is prohibited from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares unless there are reasonable grounds for believing that the company is, and would after the giving of such financial assistance be, able to pay its liabilities as they become due; and the realisable value of the company's assets, after the giving of such financial assistance, would not thereby be less than the aggregate of its liabilities, issued share capital and share premium accounts. However, in certain circumstances, the prohibition from giving financial assistance may be excluded such as where the assistance is only an incidental part of a larger purpose or the assistance is of an insignificant amount such as the payment of minor costs. In addition, the Companies Act expressly permits the grant of financial assistance where (i) the financial assistance does not reduce the company's net assets or, to the extent the net assets are reduced, such financial assistance is provided for out of funds of the company which would otherwise be available for dividend or distribution; (ii) an affidavit of solvency is sworn by the directors of the company; and (iii) the financial assistance is approved by resolution of shareholders of the company.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its memorandum of association or bye-laws, purchase its own shares. Such purchases may only be effected out of the capital paid up on the purchased shares or out of the funds of the company otherwise available for dividend or distribution or out of the proceeds of a fresh issue of shares made for the purpose. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of funds of the company otherwise available for dividend or distribution or out of the company's share premium account. Any amount due to a shareholder on a purchase by a company of its own shares may (i) be paid in cash; (ii) be satisfied by the transfer of any part of the undertaking or property of the company having the same value; or (iii) be satisfied partly under (i) and partly under (ii). Any purchase by a company of its own shares may be authorised by its board of directors or otherwise by or in accordance with the provisions of its bye-laws. Such purchase may only be made if at least two directors, by affidavit, declare that on the effective date of the purchase and taking into account the purchase, the company is solvent or that all of the creditors of the company on that

date have consented in writing to the purchase. In the case where a company is listed on an appointed stock exchange (as defined in the Companies Act), the affidavit may, at the option of the company, be sworn within thirty days after the end of each calendar quarter giving details of the purchases made during each quarter. The shares so purchased will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Bermuda law that a company's memorandum of association or its bye-laws contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Bermuda law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. The holding company is, however, prohibited from giving financial assistance for the purpose of the acquisition, subject to certain circumstances provided by the Companies Act. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its memorandum of association or bye-laws pursuant to section 42A of the Companies Act.

(d) Dividends and distributions

A company may not declare or pay a dividend, or make a distribution out of contributed surplus, if there are reasonable grounds for believing that (i) the company is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of the company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts. Contributed surplus is defined for purposes of section 54 of the Companies Act to include the proceeds arising from donated shares, credits resulting from the redemption or conversion of shares at less than the amount set up as nominal capital and donations of cash and other assets to the company.

(e) Protection of minorities

Class actions and derivative actions are generally not available to shareholders under the laws of Bermuda. The Bermuda courts, however, would ordinarily be expected to permit a shareholder to commence an action in the name of a company to remedy a wrong done to the company where the act complained of is alleged to be beyond the corporate power of the company or is illegal or would result in the violation of the company's memorandum of association and bye-laws. Furthermore, consideration would be given by the court to acts that are alleged to constitute a fraud against the minority shareholders or, for instance, where an act requires the approval of a greater percentage of the company's shareholders than actually approved it.

Any member of a company who complains that the affairs of the company are being conducted or have been conducted in a manner oppressive or prejudicial to the interests of some part of the members, including himself, may petition the court which may, if it is of the opinion that to wind up the company would unfairly prejudice that part of the members but that otherwise the facts would justify the making of a winding up order on just and equitable grounds, make such order as it thinks fit, whether for regulating the conduct of the company's affairs in future or for the purchase of shares of any members of the company by other members of the company or

by the company itself and in the case of a purchase by the company itself, for the reduction accordingly of the company's capital, or otherwise. Bermuda law also provides that the company may be wound up by the Bermuda court, if the court is of the opinion that it is just and equitable to do so. Both these provisions are available to minority shareholders seeking relief from the oppressive conduct of the majority, and the court has wide discretion to make such orders as it thinks fit.

Except as mentioned above, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in Bermuda.

A statutory right of action is conferred on subscribers of shares in a company against persons, including directors and officers, responsible for the issue of a prospectus in respect of damage suffered by reason of an untrue statement therein, but this confers no right of action against the company itself. In addition, such company, as opposed to its shareholders, may take action against its officers including directors, for breach of their statutory and fiduciary duty to act honestly and in good faith with a view to the best interests of the company.

(f) Management

The Companies Act contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Furthermore, the Companies Act requires that every officer should comply with the Companies Act, regulations passed pursuant to the Companies Act and the by-laws of the company.

(g) Accounting and auditing requirements

The Companies Act requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Furthermore, it requires that a company keeps its records of account at the registered office of the company or at such other place as the directors think fit and that such records shall at all times be open to inspection by the directors or the resident representative of the company. If the records of account are kept at some place outside Bermuda, there shall be kept at the office of the company in Bermuda such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each three month period, except that where the company is listed on an appointed stock exchange, there shall be kept such records as will enable the directors or the resident representative of the company to ascertain with reasonable accuracy the financial position of the company at the end of each six month period.

The Companies Act requires that the directors of the company must, at least once a year, lay before the company in general meeting financial statements for the relevant accounting period. Further, the company's auditor must audit the financial statements so as to enable him to report to the members. Based on the results of his audit, which must be made in accordance with

generally accepted auditing standards, the auditor must then make a report to the members. The generally accepted auditing standards may be those of a country or jurisdiction other than Bermuda or such other generally accepted auditing standards as may be appointed by the Minister of Finance of Bermuda under the Companies Act; and where the generally accepted auditing standards used are other than those of Bermuda, the report of the auditor shall identify the generally accepted auditing standards used. All members of the company are entitled to receive a copy of every financial statement prepared in accordance with these requirements, at least seven days before the general meeting of the company at which the financial statements are to be tabled.

(h) Auditors

At each annual general meeting, a company must appoint an auditor to hold office until the close of the next annual general meeting; however, this requirement may be waived if all of the shareholders and all of the directors, either in writing or at the general meeting, agree that there shall be no auditor.

A person, other than an incumbent auditor, shall not be capable of being appointed auditor at an annual general meeting unless notice in writing of an intention to nominate that person to the office of auditor has been given not less than 21 days before the annual general meeting. The company must send a copy of such notice to the incumbent auditor and give notice thereof to the members not less than 7 days before the annual general meeting. An incumbent auditor may, however, by notice in writing to the secretary of the company waive the requirements of the foregoing.

Where an auditor is appointed to replace another auditor, the new auditor must seek from the replaced auditor a written statement as to the circumstances of the latter's replacement. If the replaced auditor does not respond within 15 days, the new auditor may act in any event. An appointment as auditor of a person who has not requested a written statement from the replaced auditor is voidable by a resolution of the shareholders at a general meeting. An auditor who has resigned, been removed or whose term of office has expired or is about to expire, or who has vacated office is entitled to attend the general meeting of the company at which he is to be removed or his successor is to be appointed; to receive all notices of, and other communications relating to, that meeting which a member is entitled to receive; and to be heard at that meeting on any part of the business of the meeting that relates to his duties as auditor or former auditor.

(i) Exchange control

An exempted company is usually designated as "non-resident" for Bermuda exchange control purposes by the Bermuda Monetary Authority. Where a company is so designated, it is free to deal in currencies of countries outside the Bermuda exchange control area which are freely convertible into currencies of any other country. The permission of the Bermuda Monetary Authority is required for the issue of shares and warrants by the company and the subsequent transfer of such shares and warrants. In granting such permission, the Bermuda Monetary Authority accepts no responsibility for the financial soundness of any proposals or for the correctness of any statements made or opinions expressed in any document with regard to such issue. Before the company can issue or transfer any further shares and warrants in excess of the amounts already approved, it must obtain the prior consent of the Bermuda Monetary Authority.

Permission of the Bermuda Monetary Authority will normally be granted for the issue and transfer of shares and warrants to and between persons regarded as resident outside Bermuda for exchange control purposes without specific consent for so long as the shares and warrants are listed on an appointed stock exchange (as defined in the Companies Act). Issues to and transfers involving persons regarded as “resident” for exchange control purposes in Bermuda will be subject to specific exchange control authorisation.

(j) Taxation

Under present Bermuda law, no Bermuda withholding tax on dividends or other distributions, nor any Bermuda tax computed on profits or income or on any capital asset, gain or appreciation will be payable by an exempted company or its operations, nor is there any Bermuda tax in the nature of estate duty or inheritance tax applicable to shares, debentures or other obligations of the company held by non-residents of Bermuda. Furthermore, a company may apply to the Minister of Finance of Bermuda for an assurance, under the Exempted Undertakings Tax Protection Act 1966 of Bermuda, that no such taxes shall be so applicable until 28th March 2016, although this assurance will not prevent the imposition of any Bermuda tax payable in relation to any land in Bermuda leased or let to the company or to persons ordinarily resident in Bermuda.

(k) Stamp duty

An exempted company is exempt from all stamp duties except on transactions involving “Bermuda property”. This term relates, essentially, to real and personal property physically situated in Bermuda, including shares in local companies (as opposed to exempted companies). Transfers of shares and warrants in all exempted companies are exempt from Bermuda stamp duty.

(l) Loans to directors

Bermuda law prohibits the making of loans by a company to any of its directors or to their families or companies in which they hold more than a 20% interest, without the consent of any member or members holding in aggregate not less than nine-tenths of the total voting rights of all members having the right to vote at any meeting of the members of the company. These prohibitions do not apply to anything done to provide a director with funds to meet the expenditure incurred or to be incurred by him for the purposes of the company, provided that the company gives its prior approval at a general meeting or, if not, the loan is made on condition that it will be repaid within six months of the next following annual general meeting if the loan is not approved at or before such meeting. If the approval of the company is not given for a loan, the directors who authorised it will be jointly and severally liable for any loss arising therefrom.

(m) Inspection of corporate records

Members of the general public have the right to inspect the public documents of a company available at the office of the Registrar of Companies in Bermuda which will include the company’s certificate of incorporation, its memorandum of association (including its objects and powers) and any alteration to the company’s memorandum of association. The members of the company have the additional right to inspect the bye-laws of a company, minutes of general meetings and the company’s audited financial statements, which must be presented to the annual general meeting. Minutes of general meetings of a company are also open for inspection by

directors of the company without charge for not less than two hours during business hours each day. The register of members of a company is open for inspection by members without charge and to members of the general public for a fee. The company is required to maintain its share register in Bermuda but may, subject to the provisions of the Companies Act, establish a branch register outside Bermuda. Any branch register of members established by the company is subject to the same rights of inspection as the principal register of members of the company in Bermuda. Any person may require a copy of the register of members or any part thereof which must be provided within fourteen days of a request. Bermuda law does not, however, provide a general right for members to inspect or obtain copies of any other corporate records.

A company is required to maintain a register of directors and officers at its registered office and such register must be made available for inspection for not less than two hours in each day by members of the public without charge.

(n) Winding up

A company may be wound up by the Bermuda court on application presented by the company itself, its creditors or its contributors. The Bermuda court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Bermuda court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where, on a voluntary winding up, a majority of directors make a statutory declaration of solvency, the winding up will be a members' voluntary winding up. In any case where such declaration has not been made, the winding up will be a creditors' voluntary winding up.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators within the period prescribed by the Companies Act for the purpose of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice published in an appointed newspaper in Bermuda.

In the case of a creditors' voluntary winding up of a company, the company must call a meeting of creditors of the company to be summoned on the day following the day on which the meeting of the members at which the resolution for winding up is to be proposed is held. Notice

of such meeting of creditors must be sent at the same time as notice is sent to members. In addition, such company must cause a notice to appear in an appointed newspaper on at least two occasions.

The creditors and the members at their respective meetings may nominate a person to be liquidator for the purposes of winding up the affairs of the company provided that if the creditors nominate a different person, the person nominated by the creditors shall be the liquidator. The creditors at the creditors' meeting may also appoint a committee of inspection consisting of not more than five persons.

If a creditors' winding up continues for more than one year, the liquidator is required to summon a general meeting of the company and a meeting of the creditors at the end of each year to lay before such meetings an account of his acts and dealings and of the conduct of the winding up during the preceding year. As soon as the affairs of the company are fully wound up, the liquidator must make an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon shall call a general meeting of the company and a meeting of the creditors for the purposes of laying the account before such meetings and giving an explanation thereof.

5. GENERAL

Conyers Dill & Pearman, the Company's legal advisers on Bermuda law, have sent to the Company a letter of advice summarising certain aspects of Bermuda company law. This letter, together with a copy of the Companies Act, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Bermuda company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY**Incorporation**

The Company was incorporated in Bermuda as an exempted company under the Companies Act on 22nd September, 1999. The Company has established a place of business in Hong Kong at 6th Floor, Hing Yip Commercial Centre, 272–284 Des Voeux Road Central Hong Kong and on 11th January, 2000 applied to be registered in Hong Kong as an overseas company in Hong Kong under Part XI of the Companies Ordinance. Such application contains a notice of appointment of Mr. Chai Chi Man of 3C, Maple Gardens, Phase III, 51 Kin Wah Street, North Point, Hong Kong as agent of the Company for the acceptance of service of process in Hong Kong. As the Company is incorporated in Bermuda, it operates subject to Bermuda law and to its constitution which comprises a memorandum of association and bye-laws. A summary of various provisions of its constitution and relevant aspects of the Bermuda company law is set out in Appendix III to this prospectus.

Changes in share capital

As at the date of incorporation of the Company, its authorised share capital was \$100,000 divided into 1,000,000 Shares, all of which were allotted and issued nil paid to Professor Kou on 24th September, 1999.

On 11th January, 2000, Professor Kou transferred the 1,000,000 Shares allotted and issued nil paid to him on 24th September, 1999 to Ultra Challenge for nil consideration.

Pursuant to the resolutions passed by the then Shareholder on 11th January, 2000:

- (a) the authorised share capital of the Company was increased from \$100,000 to \$30,000,000 by the creation of an additional 299,000,000 Shares, such new Shares to rank *pari passu* in all respects with the existing Shares;
- (b) as consideration and in exchange for the acquisition by the Company from Ultra Challenge of 10,000 shares of US\$1.00 each in the capital of Verified Solutions, representing the entire issued share capital of Verified Solutions, the Directors were authorised to:
 - (i) allot and issue an aggregate of 1,000,000 Shares, credited as fully paid, to Ultra Challenge; and
 - (ii) pay up in full at par the 1,000,000 Shares allotted and issued nil paid on 24th September, 1999.

Assuming that the Placing becomes unconditional and the issue of Shares pursuant to the Capitalisation Issue and the Placing and the issue of the Remuneration Shares as part consideration for services provided or to be provided by Oriental Patron as referred to in the Placing Agreement are made, the authorised share capital of the Company will be \$30,000,000 divided into 300,000,000 Shares and the issued share capital of the Company will be \$7,500,000 divided into 75,000,000 Shares (each of which will be fully paid or credited as fully paid) and 225,000,000 Shares will remain unissued. Assuming the Over-allotment Option is fully exercised, the issued share capital of the Company will be \$7,950,000 divided into 79,500,000 Shares and 220,500,000 Shares will remain unissued.

Other than pursuant to the exercise of any options which may be granted under the Share Option Scheme, the Directors have no present intention to issue any part of the authorised but unissued share capital of the Company. Without the prior approval of the Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as aforesaid, there has been no alteration in the share capital of the Company since its incorporation.

Shareholder's resolutions of the Company passed on 11th January, 2000

Pursuant to the resolutions passed by the then Shareholder on 11th January, 2000:

- (a) conditional on the same conditions as stated in the paragraph headed "Conditions of the Placing" in the section headed "Placing Structure and Expenses" of this prospectus:
 - (i) the Placing was approved and the Directors were authorised to allot and issue the Placing Shares upon the terms set out in this prospectus; and
 - (ii) conditional on the GEM Listing Committee of the Stock Exchange granting approval of the Share Option Scheme and the grant of options thereunder and the listing of and permission to deal in Shares which may fall to be issued upon the exercise of such options, the Share Option Scheme was approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant thereto;
- (b) conditional on the share premium account of the Company being credited as a result of the Placing, \$4,097,500 of such amount was directed to be capitalised and applied in paying up in full at par an aggregate of 40,975,000 Shares, for allotment and issue to Ultra Challenge, the then existing Shareholder;
- (c) as part consideration for the services provided or to be provided by Oriental Patron as referred to in the Placing Agreement, the Directors were authorised to allot and issue 2,025,000 Shares, credited as fully paid, to Pacific Top, as per the direction of Oriental Patron, at the same time as the other Placing Shares are allotted and issued;
- (d) a general unconditional mandate was given to the Directors to allot, issue and deal with (otherwise than by way of rights issues, by virtue of scrip dividend schemes or other similar arrangements in accordance with the bye-laws of the Company or upon exercise of options granted under the Share Option Scheme), on behalf of the Company, Shares with an aggregate nominal value not exceeding the sum of:
 - (i) 20% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein; and
 - (ii) the aggregate nominal amount of the share capital of the Company purchased under the authority referred to in paragraph (e) below;
- (e) a general unconditional mandate was given to the Directors to exercise all the powers of and on behalf of the Company to purchase on GEM or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the

Securities and Futures Commission and the Stock Exchange for this purpose Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein; and

- (f) the Company adopted its new bye-laws.

Each of the general mandates referred to in paragraphs (d) and (e) above will remain in effect until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the bye-laws of the Company to be held or when it is revoked or varied by an ordinary resolution by the Shareholders in general meeting, whichever is the earliest.

Corporate reorganisation

- (a) Prior to the issue of this prospectus, the companies in the Group underwent a reorganisation in preparation for the listing of the Shares on the GEM.
- (b) The corporate reorganisation involved, inter alia, the following:
 - (i) On 11th January, 2000 and in accordance with the instrument of transfer referred to in sub-paragraph (b) of the paragraph headed “Summary of material contracts” in this Appendix, 1,000,000 nil paid Shares, representing the entire issued share capital of the Company, were transferred by Professor Kou to Ultra Challenge for nil consideration.
 - (ii) On 11th January, 2000 and in accordance with the agreement referred to in sub-paragraph (c) of the paragraph headed “Summary of material contracts” in this Appendix, 10,000 shares of US\$1.00 each in the issued share capital of Verified Solutions, representing the entire issued share capital of Verified Solutions, were transferred by Professor Kou to Ultra Challenge, in consideration of which nine shares, credited as fully paid, in the share capital of Ultra Challenge were issued to HSBC International Trustee Limited, as per Professor Kou’s direction.
 - (iii) On 11th January, 2000 and in accordance with the agreement referred to in sub-paragraph (d) of the paragraph headed “Summary of material contracts” in this Appendix, an aggregate of 10,000 shares in the share capital of Verified Solutions, representing the entire issued share capital of Verified Solutions, were transferred by Ultra Challenge to the Company, in consideration of which 1,000,000 Shares, credited as fully paid, were allotted and issued by the Company to Ultra Challenge and the 1,000,000 Shares allotted and issued nil paid on 24th September, 1999 were paid up in full at par.

Changes in share capital of subsidiaries

The following alterations in the share capital of the Company’s subsidiaries have taken place within the two years preceding the date of this prospectus:

- (a) On 18th February, 1999, Verified Solutions was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, 9,550 of which were allotted and issued to Professor Kou on 13th May, 1999.

- (b) On 18th June, 1999, Tiancai Network was established in the PRC with a registered capital of US\$200,000, of which Verified Solutions has contributed US\$140,000 in cash and Genius has contributed US\$60,000 by way of injection of its data broadcasting business together with assets, liabilities and technology thereof.
- (c) On 11th January, 2000, 450 shares of US\$1.00 each in the capital of Verified Solutions were allotted and issued to Professor Kou.

Save as aforesaid and as set out in the paragraph headed “Corporate reorganisation” in this Appendix, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years preceding the date of this prospectus.

Repurchase by the Company of its own Shares

A resolution has been passed by the Shareholders on 11th January, 2000, pursuant to which a general unconditional mandate (the “Repurchase Mandate”) has been granted to the Directors authorising the repurchase by the Company on GEM, or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein, during the period from the passing of such resolution up to:

- (a) the conclusion of the next annual general meeting of the Company;
- (b) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the bye-laws of the Company to be held; or
- (c) the revocation or variation of the Repurchase Mandate by an ordinary resolution of Shareholders in general meeting,

whichever is the earliest.

(a) Provisions of the GEM Listing Rules

The GEM Listing Rules permit companies listed on GEM to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders’ approval

All proposed repurchases of securities by a company listed on GEM must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval in relation to specific transactions.

(ii) Source of funds

Repurchases by a company may only be funded out of funds legally available for the purposes in accordance with its memorandum of association and bye-laws and the applicable laws of Bermuda. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) *Trading restrictions*

The total number of shares which a company is authorised to repurchase on GEM is shares representing up to a maximum of 10% of the existing issued share capital at the date of the passing of the ordinary resolution approving the repurchase mandate. A company may not issue or announce an issue of new shares for a period of 30 days immediately following a repurchase (except pursuant to the exercise of share options or similar instruments outstanding prior to such repurchase). In addition, the purchase price of shares purchased on GEM should not be higher than the latest or current independent bid price or the last independent sale (contract) price quoted or reported on the system (as defined in the Rules of the Stock Exchange) and the opening bid or any bid shall not be made in the last 30 minutes before the close of normal trading hours as stipulated in the Rules of the Stock Exchange. A company is also prohibited from making securities repurchases on GEM if the repurchase would result in the number of listed securities in the hands of the public falling below the relevant minimum prescribed percentage as required by the Stock Exchange.

A company shall procure that any broker appointed by it to effect the purchase of its own shares shall disclose to the Stock Exchange such information with respect to purchases made on behalf of the company as the Stock Exchange may request.

(iv) *Status of repurchased securities*

The listing of all repurchased securities (whether on GEM or otherwise) is automatically cancelled and the certificates of those securities must be cancelled and destroyed as soon as reasonably practicable.

(v) *Suspension of repurchases*

Any repurchase of securities is prohibited after a piece of price sensitive information has developed or has been the subject of a decision until the price sensitive information has been publicly announced. In particular, during the period of one month immediately preceding either the preliminary announcement of the company's annual results or the publication of the company's interim report, a company is prohibited from making any repurchase of securities on GEM unless the circumstances are exceptional. In addition, the Stock Exchange reserves the right to prohibit a company from making any repurchase of securities on GEM if a company has breached any of the GEM Listing Rules.

(vi) *Reporting requirements*

Repurchases of securities on GEM or otherwise must be reported to the Stock Exchange not later than 9:30 a.m. (Hong Kong time) on the following business day. The Stock Exchange is to make this information publicly available as soon as possible. In addition, a company's annual report is required to disclose details regarding securities repurchases made during the year, including the number of securities repurchased and the aggregate price paid.

(vii) *Connected parties*

A company is prohibited from knowingly repurchasing securities on GEM from a “connected person”, that is, a director, chief executive, substantial shareholder or management shareholder of the company or an associate of any of them (as defined in the GEM Listing Rules), and a connected person is prohibited from knowingly selling his securities to the company.

(b) Reasons for Repurchases

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to have a general authority from Shareholders to enable the Company to repurchase Shares in the market. Repurchases of Shares will only be made when the Directors believe that such a repurchase will benefit the Company and the Shareholders. Such repurchases may, depending on the market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets or its earnings per Share or both.

(c) Funding of Repurchases

Any repurchases will only be funded out of funds of the Company legally available for the purposes in accordance with its memorandum of association and bye-laws and the applicable laws of Bermuda. The Company will not purchase securities on GEM for a consideration other than cash or for settlement otherwise in accordance with the trading rules of the Stock Exchange.

There might be a material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in its latest published audited accounts) in the event that the Repurchase Mandate is exercised in full. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

(d) Exercise of the Repurchase Mandate

Exercise in full of the Repurchase Mandate, on the basis of 75,000,000 Shares in issue immediately after the listing of the Shares, could accordingly result in up to 7,500,000 Shares being repurchased by the Company during the period from the passing of such resolution up to:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the bye-laws of the Company to be held; or
- (iii) the revocation or variation of the Repurchase Mandate by an ordinary resolution of shareholders of the Company in general meeting,

whichever is the earliest.

(e) Disclosure of Interests

None of the Directors and, to the best of their knowledge, having made all reasonable enquiries, none of their respective associates, have any present intention, if the Repurchase Mandate is exercised, to sell any Share to the Company or its subsidiary.

No connected persons (as defined in the GEM Listing Rules) have notified the Company that they have a present intention to sell Shares to the Company, or have undertaken not to do so, if the Repurchase Mandate is exercised.

(f) Directors' Undertaking

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of Bermuda.

(g) Takeovers Code Consequences

If as a result of a repurchase of Shares, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the Shareholder's interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

FURTHER INFORMATION ABOUT THE BUSINESS**Summary of material contracts**

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) a sponsor agreement dated 27th September, 1999 entered into between Oriental Patron and the Company, pursuant to which the Company has appointed Oriental Patron to act as its sponsor for the purposes of the GEM Listing Rules;
- (b) an instrument of transfer dated 11th January, 2000 executed by Professor Kou in favour of Ultra Challenge, pursuant to which Professor Kou transferred 1,000,000 nil paid Shares to Ultra Challenge for nil consideration;
- (c) a sale and purchase agreement dated 11th January, 2000 entered into between Professor Kou and Ultra Challenge, pursuant to which Professor Kou transferred 10,000 shares of US\$1.00 each in the issued share capital of Verified Solutions, representing the entire issued share capital of Verified Solutions, to Ultra Challenge in consideration of Ultra Challenge allotting and issuing nine shares of US\$1.00 each to HSBC International Trustee Limited, as per Professor Kou's direction;
- (d) a sale and purchase agreement dated 11th January, 2000 entered into between Ultra Challenge and the Company, pursuant to which Ultra Challenge transferred 10,000 shares of US\$1.00 each in the capital of Verified Solutions, representing the entire issued share

capital of Verified Solutions, to the Company in consideration of the Company (i) allotting and issuing 1,000,000 Shares, credited as fully paid, to Ultra Challenge and (ii) paying up in full at par the 1,000,000 Shares allotted and issued nil paid on 24th September, 1999;

- (e) an amended and consolidated joint venture contract dated 18th September, 1999 entered into between Genius and Verified Solutions concerning the establishment and operation of Tiancai Network;
- (f) a licence agreement dated 8th January, 2000 entered into between Genius and Tiancai Network pursuant to which Tiancai Network has been granted, free of charge, certain rights to use the “天財” trademark;
- (g)
 - (i) an agreement dated 12th October, 1999 entered into between Tiancai Network and Genius relating to the assignment of rights and obligations under a co-operation agreement, pursuant to which Genius assigned to Tiancai Network all its rights and obligations under a co-operation agreement with Yunnan Teletext Information Centre and Yunnan Information Telecommunication Network dated 27th April, 1998;
 - (ii) an agreement dated 12th October, 1999 entered into between Tiancai Network and Genius relating to the assignment of rights and obligations under a co-operation agreement, pursuant to which Genius assigned to Tiancai Network all its rights and obligations under a co-operation agreement with Tianjin Cable Television Station dated 13th November, 1998;
 - (iii) an agreement dated 12th October, 1999 entered into between Tiancai Network and Genius relating to the assignment of rights and obligations under a co-operation agreement, pursuant to which Genius assigned to Tiancai Network all its rights and obligations under a co-operation agreement with Tianjin Dagang Area Broadcasting Television Bureau dated 19th January, 1999; and
 - (iv) an agreement dated 12th October, 1999 entered into between Tiancai Network and Genius relating to the assignment of rights and obligations under a co-operation agreement, pursuant to which Genius assigned to Tiancai Network all its rights and obligations under a co-operation agreement with China Computerworld Publishing & Servicing Company dated 5th July, 1999;
- (h) an agreement dated 12th October, 1999 entered into between Tiancai Network and Jiangxi Tianda Tiancai Technology Company Limited, a non-wholly-owned subsidiary of Genius, relating to the assignment of rights and obligations under a co-operation agreement, pursuant to which Jiangxi Tianda Tiancai Technology Company Limited assigned to Tiancai Network all its rights and obligations under a co-operation agreement with Jiangxi Cable Television Station dated 2nd December, 1998;
- (i) a deed of representations, warranties, undertakings and indemnities dated 11th January, 2000 entered into between Professor Kou, Ultra Challenge and the Company, pursuant to which Professor Kou and Ultra Challenge gave to the Company certain representations, warranties, undertakings and indemnities in relation to subsidiaries of the Company transferred into the Group pursuant to the reorganisation set out in the paragraph headed “Corporate reorganisation” in this Appendix;

- (j) the Placing Agreement dated 14th January, 2000 entered into between the Company, Oriental Patron and others named therein to which the form of the placing letter in respect of the Placing is annexed;
- (k) a deed of indemnity dated 14th January, 2000 given by Professor Kou and Ultra Challenge in favour of the Group, containing, among other things, indemnities referred to in the paragraph headed “Estate duty and tax indemnity” in this Appendix; and
- (l) a letter of undertaking dated 10th January, 2000 from Genius to Tiancai Network pursuant to which Genius has undertaken not to engage or participate in business that are the same as or similar in nature to the businesses of the Group, as referred to in the paragraph headed “Relationship with the Genius Group and Tianjin University” in the section of this prospectus headed “Business”.

Intellectual property

As at the Latest Practicable Date, the Group had applied for registration of the following patent:

Patent	Country of registration	Application number	Application date
TV set top boxes for full channel data broadcasting	PRC	99216856.2	14th July, 1999

Information on subsidiary in the PRC

Name:	Tianjin Tiancai Network Software Company Limited (天津天財網絡軟件有限公司)
Nature of organisation:	Sino-foreign co-operative joint venture enterprise
Term:	15 years from 18th June, 1999
Registered capital:	US\$200,000, of which Verified Solutions has contributed US\$140,000 (representing 70% of the registered capital) in cash and Genius has contributed US\$60,000 (representing 30% of the registered capital) by way of injection of its proprietary technology and know-how together with data broadcasting business and the assets and liabilities thereof
Directors:	Professor Kou, Professor Li Min Qiang and Ms. Cheung Lai
Nature of business:	development, manufacture and sale of computer software, peripheral equipment, system integration, monitoring and security installations, and related consultancy service
Asset distribution upon termination of joint venture:	remaining assets to be distributed to the joint venture partners in accordance with the ratio of their respective contributions to the registered capital of the joint venture

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT, STAFF AND EXPERTS**Disclosure of interests**

- (a) Each of Professor Kou, Mr. Dong Jian Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong is interested in each of the material contracts set out in the paragraph headed “Summary of material contracts” in this Appendix.
- (b) Each of Mr. John Charles Ross Collis and Mr. Anthony Devon Whaley, being the Company’s Bermuda resident representative and deputy resident representative, respectively, is a partner of Conyers Dill & Pearman, legal advisers to the Company on Bermuda law. Conyers Dill & Pearman will receive usual professional fees in connection with the Placing. Mr. Ira Stuart Outerbridge III, the joint secretary of the Company, is an employee of Codan Services Limited, a company affiliated with Conyers Dill & Pearman.

Particulars of service contracts

Each of Professor Kou, Mr. Dong Jian Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong has entered into a Director’s service contract with the Company for a term of two years from the date on which dealings in the Shares on the GEM commence, which may be terminated by either party thereto giving to the other not less than six calendar months’ prior notice in writing, which notice period shall not expire until after the second year. During the term of the respective service contracts, the monthly salary for each of the aforementioned Directors shall be HK\$10,000.

Directors’ remuneration

The executive Directors together are entitled to a fixed salary of \$480,000 per annum in aggregate.

During the year ended 31st December, 1999, the aggregate of the remuneration paid and benefits in kind granted to the Directors by the Group were approximately \$40,000.

Under the present arrangement, the aggregate of the Directors’ fees and remuneration paid or payable to, and benefits in kind received or receivable by, the Directors for the year ending 31st December, 2000 are estimated to be approximately \$480,000.

Interests of Directors and experts in the share capital of the Company after the Placing

Immediately following completion of the Placing and taking no account of Shares which may be taken up under the Placing, the interests of the Directors and chief executive of the Company in the equity or debt securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed, or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to

therein once the Shares are listed, or, pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

Name of Director	Name of company	Personal interests	Family interests	Corporate interests	Other interests
Mr. Dong Jian Xin	the Company	—	—	—	4,297,500 Shares (Note 1)
Professor Li Min Qiang	the Company	—	—	—	4,297,500 Shares (Note 2)
Mr. Yao Xiao Dong	the Company	—	—	—	4,297,500 Shares (Note 3)

Notes:

- These 4,297,500 Shares, together with another 38,677,500 Shares, are held by Ultra Challenge, the shares of which are in turn held by HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust are Mr. Dong Jian Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong (all being executive Directors), and Mr. Tang Bin, Mr. Wang Guangxin, Mr. Zhang Renli, Mr. Li Jiancheng, Ms. Yue Shishuang, Mr. Li Yongchao, Mr. Sun Lianwen, Mr. Ji Songqiao and Ms. Cai Zhipei (all being employees of the Group). Further details are set out in section headed “Substantial and Management Shareholders”, in particular notes 1 to 13 to the paragraph headed “Management Shareholders”. Accordingly, Mr. Dong Jian Xin is deemed to be interested in 4,297,500 Shares by virtue of his 10% interest under the trust.
- These 4,297,500 Shares, together with another 38,677,500 Shares, are held by Ultra Challenge, the shares of which are in turn held by HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust are Mr. Dong Jian Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong (all being executive Directors), and Mr. Tang Bin, Mr. Wang Guangxin, Mr. Zhang Renli, Mr. Li Jiancheng, Ms. Yue Shishuang, Mr. Li Yongchao, Mr. Sun Lianwen, Mr. Ji Songqiao and Ms. Cai Zhipei (all being employees of the Group). Further details are set out in section headed “Substantial and Management Shareholders”, in particular notes 1 to 13 to the paragraph headed “Management Shareholders”. Accordingly, Professor Li Min Qiang is deemed to be interested in 4,297,500 Shares by virtue of his 10% interest under the trust.
- These 4,297,500 Shares, together with another 38,677,500 Shares, are held by Ultra Challenge, the shares of which are in turn held by HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust are Mr. Dong Jian Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong (all being executive Directors), and Mr. Tang Bin, Mr. Wang Guangxin, Mr. Zhang Renli, Mr. Li Jiancheng, Ms. Yue Shishuang, Mr. Li Yongchao, Mr. Sun Lianwen, Mr. Ji Songqiao and Ms. Cai Zhipei (all being employees of the Group). Further details are set out in section headed “Substantial and Management Shareholders”, in particular notes 1 to 13 to the paragraph headed “Management Shareholders”. Accordingly, Mr. Yao Xiao Dong is deemed to be interested in 4,297,500 Shares by virtue of his 10% interest under the trust.

So far as the Directors are aware, and taking no account of Shares which may be taken up under the Placing, the following (not being Directors or chief executive of the Company) will, immediately following the completion of the Placing, be interested in 10% or more of the voting power at general meetings of members of the Group:

Name of owner	Name of company	Number of shares held
Ultra Challenge	The Company	42,975,000 (Note)

Note: The shares in Ultra Challenge are held by HSBC International Trustee Limited on terms of a fixed trust. The beneficiaries of the trust are Mr. Dong Jian Xin, Professor Li Min Qiang and Mr. Yao Xiao Dong (all being executive Directors), and Mr. Tang Bin, Mr. Wang Guangxin, Mr. Zhang Renli, Mr. Li Jiancheng, Ms. Yue Shishuang, Mr. Li Yongchao, Mr. Sun Lianwen, Mr. Ji Songqiao and Ms. Cai Zhipei (all being employees of the Group). Further details are set out in section headed “Substantial and Management Shareholders”, in particular notes 1 to 13 to the paragraph headed “Management Shareholders”.

Agency fees or commissions received

None of the Directors, the promoters of the Company or the experts named in the subsection headed “Consents of experts” in this Appendix had received any agency fee or commission from the Group within the two years immediately preceding the date of this prospectus in connection with the issue or sale of any capital of any member of the Group.

Related party transactions

The Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in note (h) to section 3 of the accountants’ report set out in Appendix I to this prospectus and in the paragraph headed “Summary of material contracts” in this Appendix.

Disclaimers

Save as disclosed herein:

- (a) taking no account of the Shares which may be taken up under the Placing, none of the Directors or chief executive of the Company has any interest in the equity or debt securities of the Company or any of its associated corporation (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which he will be taken or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance) once the Shares are listed, or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein once the Shares are listed, or, pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors, to be notified to the Company and the Stock Exchange once the Shares are listed;
- (b) none of the Directors or experts referred to in the paragraph headed “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;
- (c) none of the Directors or experts referred to in the paragraph headed “Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (d) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation, other than statutory compensation);
- (e) taking no account of any Share which may be taken up under the Placing, the Directors are not aware of any person (not being a Director or chief executive of the Company) who will, immediately following completion of the Placing, be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group; and

- (f) none of the experts referred to in the paragraph headed “consents of experts” in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

SHARE OPTION SCHEME

Summary of terms

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a resolution passed by the Shareholders on 11th January, 2000:

(a) *Who may join*

The board of Directors (the “Board”) may, at its discretion, offer full-time employees, including executive directors of the Company or any of its subsidiaries, options to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (b) below. Upon acceptance of an offer for the grant of options, the grantee shall pay \$1.00 to the Company by way of consideration for the grant.

(b) *Price of Shares*

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant of the option, (ii) the average of the closing prices of the Shares as stated in the Stock Exchange’s daily quotations sheets on the five business days immediately preceding the date of grant of the option (iii) the nominal value of a Share.

(c) *Maximum number of Shares*

- (i) The maximum number of Shares in respect of which options may be granted under the Share Option Scheme (or under any other share option scheme of the Company pursuant to which options may from time to time be granted to executive directors or full-time employees of the Company or any of its subsidiaries) shall be such number which shall not exceed 10% of the issued ordinary share capital of the Company from time to time, excluding for this purpose (1) Shares issued pursuant to the Share Option Scheme and any other schemes; and (2) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (1) during a period of ten years from 11th January, 2000, the date on which the Share Option Scheme was conditionally adopted by the Company.
- (ii) No option may be granted to any one person which if exercised in full would result in the total number of Shares already issued and issuable to him under all the options previously granted to him and the said option exceeding 25% of the aggregate number of Shares issued and issuable under all the options which may be granted under the Share Option Scheme at the time it is proposed to grant the relevant option to that person.

(d) *Time of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee, such period of time being not less than three years and not more than ten years from the date on which the option is granted in accordance with the terms of the Share Option Scheme and expiring on the last day of such period or the date falling on the expiry of ten years from 11th January, 2000, the date on which the Share Option Scheme was conditionally adopted by the Company, whichever date is the earlier. The Board may provide restrictions on the exercise of an option during the period an option may be exercised. Options complying with the provisions of Chapter 23 of the GEM Listing Rules which are granted during the life of the Share Option Scheme and remain unexpired immediately prior to the end of the ten-year period shall continue to be exercisable in accordance with their terms of issue within one month after the end of the ten-year period.

(e) *Rights are personal to grantee*

An option may not be transferred and is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part.

(f) *Rights on cessation of employment by death*

If the grantee of an option ceases to be an employee of the Company or of any of its subsidiaries by reason of death, his personal representatives may exercise the option (to the extent not already exercised) within a period of twelve months thereafter, failing which it will lapse.

(g) *Rights on cessation of employment by dismissal*

If the grantee of an option ceases to be an employee of the Company or of any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, his option (to the extent not already exercised) will lapse and not be exercisable on the date of termination of his employment.

(h) *Rights on cessation of employment for other reasons*

If the grantee of an option leaves the service of the Company or of any of its subsidiaries for any other reason, his option may be exercised on or before the date of such cessation, which date shall be the last actual working day with the Company or the relevant subsidiary, whether salary is paid in lieu of notice or not.

(i) *Effects of alterations to share capital*

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares in respect of which options may be granted subject to options so far as unexercised and/or the subscription price per Share of an option or the method of exercise of the option as the independent financial adviser or the auditors of the Company shall certify in writing to the Board. No such alteration will be made the effect of which would be to enable a

Share to be issued at less than its nominal value or which would increase the proportion of the issued share capital of the Company for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration. The issue of securities as consideration in a transaction is not to be regarded as a circumstance of any of any such alterations.

(j) *Rights on a general offer*

In the event of a general offer being made to all holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, the grantee (or his legal personal representatives) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(k) *Rights on winding up*

In the event a notice is given by the Company to its Shareholders to convene a Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily windup the Company, the Company shall forthwith give notice thereof to the grantee and the grantee (or his or her legal personal representatives) may by notice in writing to the Company (such notice to be received by the Company not later than four business days prior to the proposed Shareholders' meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise.

(l) *Rights on compromise or arrangement*

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with the scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees on the same day as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and the grantee (or his personal representatives) may by notice in writing to the Company accompanied by the remittance for the exercise price in respect of the relevant option (such notice to be received by the Company not later than two business days prior to the proposed meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise credited as fully paid and registered the grantee as holder of such Shares.

(m) *Ranking of Shares*

Shares allotted and issued on the exercise of options will rank *pari passu* with the other fully-paid Shares in issue as from the date when the name of the grantee is registered on the register of members of the Company, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date before such date.

(n) *Period and administration of the Share Option Scheme*

Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of ten years from 11th January, 2000, the date on which the Share Option Scheme was conditionally adopted by the Company. The Share Option Scheme will be administered by a committee including the independent non-executive Directors.

(o) *Alterations to the Share Option Scheme*

The provisions of the Share Option Scheme as to the definitions of “Employee”, “Grantee” and “Option Period”, the duration of the Share Option Scheme, the grant of options, the subscription price, the exercise of options, the lapse of options, the maximum number of Shares available for subscription, the reorganisation of the capital structure of the Company and the alteration of the Share Option Scheme cannot be altered to the advantage of grantees or prospective grantees of options except with the prior sanction of an ordinary resolution of the Company in general meeting and the approval of the Stock Exchange.

(p) *Cancellation of unexercised options*

Any cancellation of options granted under the Share Option Scheme but not exercised will require the approval of the Shareholders and the relevant grantees and their respective associates are required to abstain from voting. The grant of any re-issued options must also comply with the terms of the Share Option Scheme.

Present status of the Share Option Scheme

The Share Option Scheme is conditional on the GEM Listing Committee (as defined in the GEM Listing Rules) granting approval of such scheme and the grant of options thereunder and granting the listing of, and permission to deal in, the Shares to be issued as mentioned therein.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the GEM Listing Committee (as defined in the GEM Listing Rules) for the approval of the Share Option Scheme and the subsequent granting of options under the Share Option Scheme and for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options granted under the Share Option Scheme.

OTHER INFORMATION

Estate duty and tax indemnity

Professor Kou and Ultra Challenge have given joint and several indemnities (the document referred to in sub-paragraph (k) in the paragraph headed “Summary of material contracts” in this Appendix) in favour of the Group in connection with, inter alia, any liability for Hong Kong estate duty which might be payable by any member of the Group, by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong)) to any member of the Group and any other tax liabilities of the Group on or before the date on which the Placing becomes unconditional except to the extent that provision has been made in the audited accounts of the Group for an accounting period ending on or before 30th June, 1999, or where

the tax liabilities fall on the Group in respect of any accounting period commencing on or after 30th June, 1999 unless such liability would not have arisen but for some act or omission of, or any transaction entered into by Professor Kou, Ultra Challenge, the Group or any of them otherwise than in the course of normal day to day trading operations on or before the date on which the Placing becomes unconditional, or to the extent that such tax liabilities arise or is incurred as a consequence of any change in the law having retrospective effect coming into force after the date of the indemnities or an increase in tax rate after the date of the indemnities.

Litigation

No member of the Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

Sponsor

Oriental Patron has made an application on behalf of the Company to the GEM Listing Committee for a listing of, and permission to deal in, all the Shares in issue, the Shares to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of Over-allotment Option and pursuant to the exercise of any options granted under the Share Option Scheme.

Minimum subscription

The Placing is not underwritten and is conditional upon, among other things, a minimum amount of \$35.4 million being raised under the Placing and the relevant consideration being received before the commencement of dealings in the Shares on GEM. The Placing will not proceed if this condition is not fulfilled on or before 21st January, 2000 or such later date as may be agreed by Oriental Patron and the Company (in case the Placing Price is not determined on or before 17th January, 2000), but in any event not later than 8th February, 2000.

For the purpose of Section 28 of the Companies Act, the minimum subscription which must be raised by the Placing in order to provide the sums required to be provided in respect of each of the following matters is as follows:

- (i) the purchase price of assets purchased or to be purchased which is to be defrayed in whole or in part out of the proceeds of the Placing — approximately \$2.5 million;
- (ii) the preliminary expenses payable by the Company in relation to the Placing, and commission payable to any person in consideration of his agreeing to subscribe for, or his procuring or agreeing to procure subscriptions for, any Share — approximately \$8.3 million;
- (iii) the repayment of monies borrowed by the Company in respect of any of the foregoing matters — Nil; and
- (iv) working capital — approximately \$17.1 million.

No amount is to be provided in respect of such matters otherwise than out of the proceeds of the Placing.

Registration procedures

Subject to the provisions of the Companies Act, the register of members of the Company will be maintained in Bermuda by The Bank of Bermuda Limited and a branch register of members of the Company will be maintained in Hong Kong by HKSCC Registrar Limited. Save where the Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, the Company's share registrar in Hong Kong and may not be lodged in Bermuda.

Taxation of holders of Shares**(a) *Bermuda***

Under present Bermuda law, transfers and other depositions of Shares are exempt from Bermuda stamp duty.

(b) *Hong Kong*

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

(c) *Generally*

Potential Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of applying for, purchasing, holding or disposing of, or dealing in, the Shares. It is emphasised that none of the Company, the Directors, Oriental Patron, their respective directors nor any other parties involved in the Placing accepts responsibility for any tax effect on, or liabilities of, persons resulting from the subscription for, holding, purchase or disposal of or dealing in, the Shares.

Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately US\$6,000 (approximately \$46,440) and are payable by the Company.

Promoter

The promoter of the Company is Professor Kou. Save as disclosed in this prospectus, no cash, securities or other benefit has been paid, allotted or given to the promoter in connection with the Placing or related transactions described in this prospectus within the two years preceding the date of this prospectus.

Qualification of experts

The following are the qualifications of the experts which have given their opinion or advice which is contained in this prospectus:

Expert	Qualification
Oriental Patron	Registered investment adviser and securities dealer
Commerce & Finance Law Offices	PRC lawyers
Ernst & Young	Certified public accountants
Sallmanns (Far East) Limited	Chartered surveyors and valuers
Conyers Dill & Pearman	Bermuda barristers and attorneys

Consents of experts

Each of Oriental Patron, Commerce & Finance Law Offices, Ernst & Young, Sallmanns (Far East) Limited and Conyers Dill & Pearman has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

Miscellaneous

- (a) Save as disclosed in this prospectus:
- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no founders, management or deferred shares of the Company have been issued or agreed to be issued; and
 - (iv) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries.

- (b) The Directors confirm that:
- (i) since 30th June, 1999 (being the date to which the latest audited combined financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospects of the Group;
 - (ii) there has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 24 months preceding the date of this prospectus;
 - (iii) the execution and delivery of the Placing Agreement by the Company does not violate or contravene any laws and regulations of the PRC, and no approvals, consents or other authorisations from the PRC government or other relevant authorities are required for the entering into, execution and delivery of the Placing Agreement; and
 - (iv) the proposed listing of the Shares on GEM and the corporate reorganisation referred to in the paragraph headed “Corporate reorganisation” in this Appendix does not require any approval, consent or authorisation of any governmental or regulatory authorisation in the PRC and does not violate or contravene any law or regulation of the PRC, including article 29 of the Securities Law of the PRC, the “Notice in relation to the further strengthening of regulation governing the issue of shares and listings overseas” dated 20th June, 1997 issued by the State Council of the PRC, and the “Guidelines on domestic enterprises proposing to list on GEM” dated 21st September, 1999 issued by the China Securities Regulatory Commission.

DOCUMENTS DELIVERED TO THE REGISTRARS OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the paragraph headed “Consents of experts” in Appendix IV to this prospectus and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix IV to this prospectus. A copy of this prospectus was also filed with the Registrar of Companies in Bermuda.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Richards Butler at 20th Floor, Alexandra House, Chater Road, Hong Kong during normal business hours up to and including 1st February, 2000:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the accountants’ report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (c) the letter, summary of valuation and valuation certificate relating to the property interests of the Group prepared by Sallmanns (Far East) Limited, the text of which are set out in Appendix II to this prospectus;
- (d) the letter prepared by Conyers Dill & Pearman summarising certain aspects of Bermuda company law referred to in Appendix III to this prospectus;
- (e) the Companies Act;
- (f) the rules of the Share Option Scheme;
- (g) the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix IV to this prospectus, together with the service contracts with the executive Directors referred to in the paragraph headed “Particulars of service contracts” in Appendix IV to this prospectus; and
- (h) the written consents referred to in the paragraph headed “Consents of experts” in Appendix IV to this prospectus.