

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.