
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.

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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.

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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.

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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
	<hr/>	<hr/>	<hr/>
Turnover (<i>Note 4</i>)	293	7,294	4,324
Cost of sales	(222)	(5,770)	(3,943)
	<hr/>	<hr/>	<hr/>
Gross profit	71	1,524	381
Selling expenses	(12)	(315)	(262)
General and administrative expenses	(186)	(480)	(305)
	<hr/>	<hr/>	<hr/>
Profit/(loss) before taxation	(127)	729	(186)
Taxation	—	—	—
	<hr/>	<hr/>	<hr/>
Profit/(loss) before minority interests	(127)	729	(186)
Minority interests	38	(219)	56
	<hr/>	<hr/>	<hr/>
Net profit/(loss) attributable to shareholders	<u>(89)</u>	<u>510</u>	<u>(130)</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.

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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%.

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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**

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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

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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.

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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.

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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

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- 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

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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.