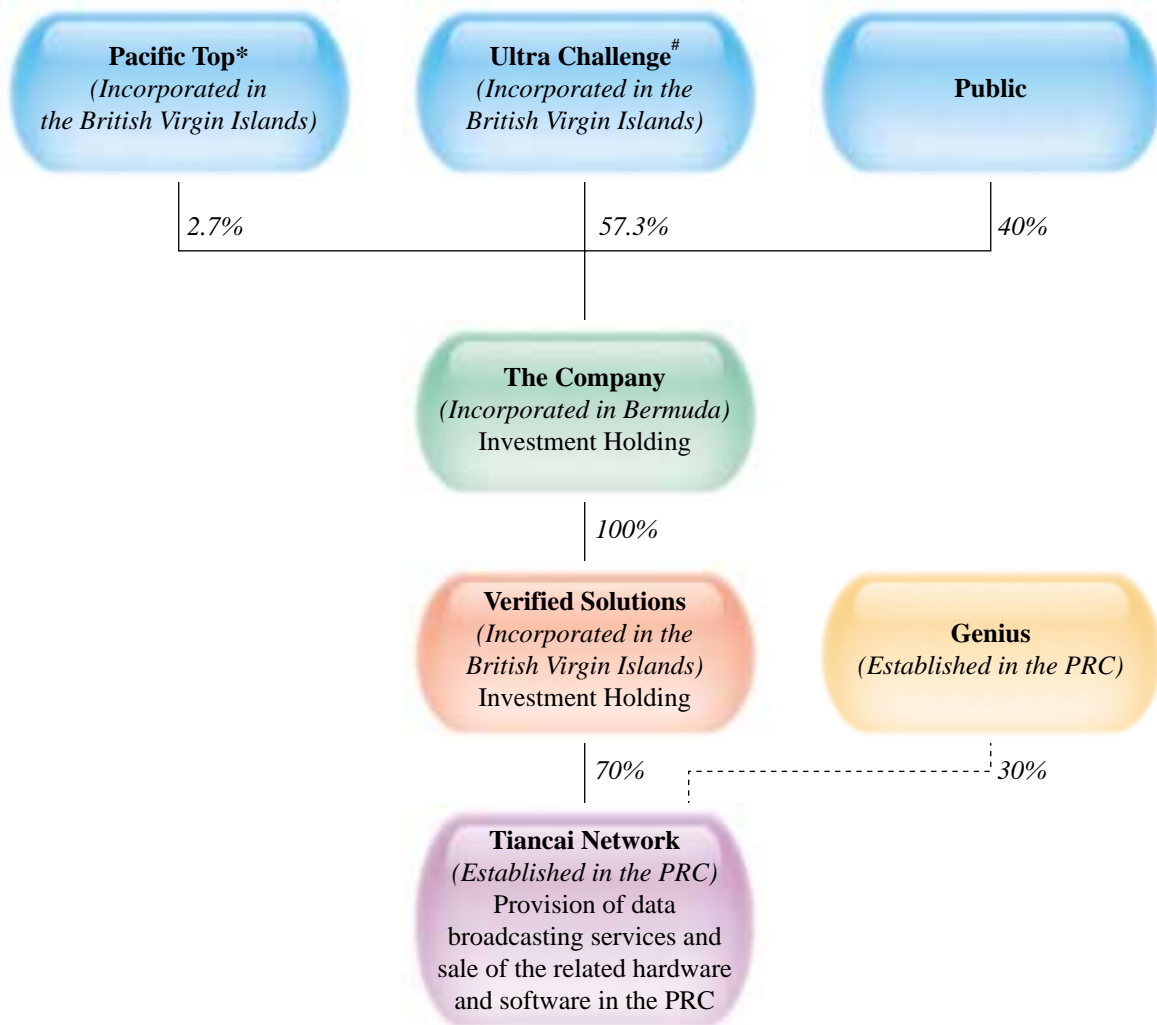


BUSINESS

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.

BUSINESS

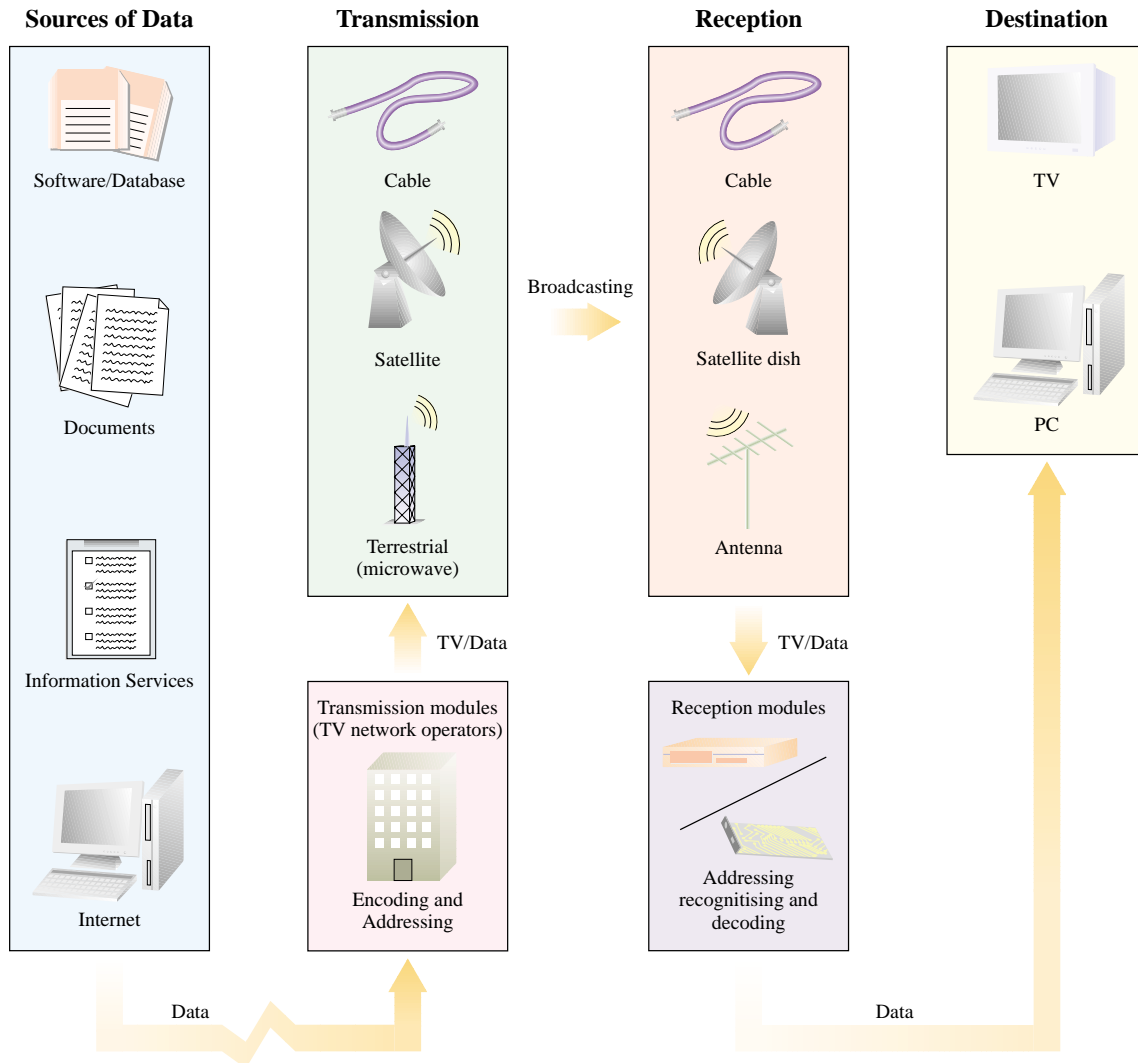
DESCRIPTION OF BUSINESS

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.

BUSINESS

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;

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- 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.

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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,	
	\$'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.

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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.

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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.

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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.

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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

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(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.

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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.

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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

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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.

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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 networks 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.

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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.

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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

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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;

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- 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

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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;

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- (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.