INDEBTEDNESS

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

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

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

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

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

Borrowings and banking facilities

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

Directors' opinion of the working capital

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

TRADING RECORD

Summary of combined results of the Group

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

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

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.

Year ended 31st December, 1997

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

Year ended 31st December, 1998

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

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

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

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

Six months ended 30th June, 1999

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

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

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

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

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

Taxation

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

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

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

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

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

The Directors are aware of the following requirements:

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

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

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

PROPERTY INTERESTS AND OTHER ASSETS

Hong Kong

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

The PRC

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

Property valuation

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

DIVIDENDS

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

DISTRIBUTABLE RESERVES

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

ADJUSTED NET TANGIBLE ASSETS

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

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

Notes:

1. The estimated net proceeds of the Placing is based on the minimum amount of $35.4 million which must be raised under the Placing for the Placing to proceed and does not take into account Shares which may be issued pursuant to the Over-allotment Option.

2. The adjusted net tangible asset value per Share is calculated based on 75,000,000 Shares expected to be in issue immediately following the completion of the Placing but taking no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or the exercise of options granted under the Share Option Scheme or of any Shares which may fall to be issued or repurchased by the Company pursuant to the mandates referred to in Appendix IV to the prospectus.

3. The minimum Placing Price of $1.18 per Share is the minimum Placing Price for the minimum amount of $35.4 million which must be raised under the Placing for the Placing to proceed.

NO MATERIAL CHANGE

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