

A. FURTHER INFORMATION ABOUT THE COMPANY

- (1) The Company was established in the PRC under the Company Law as a Sino-foreign joint stock limited liability company on 29th March, 2000 with Jade Bird Software, Beijing Tianqiao, Jade Bird, Yu Huan, Dynamic Win, Dragon Air Investments Limited, New View Venture Limited, Hinet Company Limited and Asian Technology Investment Company Limited as the promoters. The Company has established a place of business at Unit 02, 7th Floor, Asia Pacific Centre, 8 Wyndham Street, Central, Hong Kong and has submitted an application to the Registrar of Companies in Hong Kong to be registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance. Such application contains a notice of the appointment of Ms. Yang Chau Ming at 6th Floor, 287 Yu Chau Street, Shumshuipo, Kowloon, Hong Kong as the agent of the Company for the acceptance of service of process in Hong Kong.
- (2) At the time of its establishment, the Company's registered capital was Renminbi 70,000,000 divided into 70,000,000 Promoters Shares of nominal value of Renminbi 1.00 each, all of which were held and paid up as follows:–

Promoters	Number of Promoters Shares held by each Promoter	Approximate percentage of shareholding of each Promoter*
Jade Bird Software	11,000,000	15.72%
Beijing Tianqiao	7,500,000	10.71%
Yu Huan	8,500,000	12.14%
Jade Bird	4,000,000	5.71%
Dynamic Win	22,000,000	31.43%
Dragon Air Investments Limited	3,000,000	4.29%
Hinet Company Limited	2,000,000	2.86%
Asian Technology Investment Company Limited	5,000,000	7.14%
New View Venture Limited	7,000,000	10%

* *Shareholding percentages have been rounded to the nearest two decimal places*

- (3) The establishment of the Company involved, among other matters, the following procedures and approvals:
- (a) Written resolutions of all the Promoters dated 4th January, 2000 approving, among other things, the commencement of the procedures relating to the establishment of the Company and the payment of Renminbi or foreign currencies as contributions by the respective promoters to the capital of the Company;
- (b) An approval ((京)企名預核)(外)字〔2000〕第10160973號) dated 18th February, 2000 by the Beijing Municipal Administration for Industry and Commerce for the approval for use of the Company's name;

- (c) An approval (財管字〔2000〕23號) dated 31st January, 2000 by the Ministry of Finance concerning, among other matters, the net asset/share capital conversion ratio in respect of the registered capital to be paid up by the Promoters into the Company and the management plan of the State-owned Shares in the Company;
- (d) An approval (外經貿資函字第121號) dated 22nd February, 2000 by the Ministry of Foreign Trade and Economic Co-operation on the establishment of the Company by its 9 Promoters;
- (e) An approval (外經貿資審字〔2000〕0012號) dated 25th February, 2000 by the Ministry of Foreign Trade and Economic Co-operation approving the establishment of the Company as a foreign investment enterprise;
- (f) Resolutions dated 16th March, 2000 of the inaugural meeting of the Company resolving, among other matters, the establishment of the Company, the adoption of the old articles of association and the appointment of the Directors and the Supervisors of the Company;
- (g) A Business Licence dated 29th March, 2000 issued by the State Administration for Industry and Commerce relating to the establishment of the Company as a Sino-foreign joint stock limited liability company and as a separate legal entity;
- (h) An approval (証監發行字〔2000〕52號) dated 30th April, 2000 by the CSRC authorising the Company to apply for listing on the GEM of the Stock Exchange.

2. Changes in share capital

Upon the establishment of the Company on 29th March, 2000, its registered share capital was RMB70,000,000 divided into 70,000,000 Promoters Shares of RMB1 each, all of which were paid up by cash as to RMB22,000,000 by Dynamic Win, RMB11,000,000 by Jade Bird Software, RMB8,500,000 by Yu Huan, RMB7,500,000 by Beijing Tianqiao, RMB4,000,000 by Jade Bird, RMB5,000,000 by Asian Technology Investment Company Limited, RMB2,000,000 by Hinet Company Limited, RMB3,000,000 by Dragon Air Investments Limited and RMB7,000,000 by New View Venture Limited.

Save as aforesaid, there has been no alteration in the share capital of the Company since its establishment. Upon completion of the Placing, but without taking into account any H Shares (not exceeding 2,400,000 H Shares) which may be issued by the Company pursuant to the Over-allotment Option, the total share capital of the Company will increase to RMB94,000,000.

3. Proceedings at the Company's extraordinary general meetings on 15th April, 2000, 5th July, 2000 and 15th July, 2000.

At an extraordinary general meeting of the Company held on 15th April, 2000, the following resolutions, among other resolutions, were passed by the shareholders of the Company pursuant to which the Company's Articles of Association was adopted. At another extraordinary general meeting of the Company held on 5th July, 2000, which was supplemented by an extraordinary general meeting of the Company held on 15th July, 2000, the following resolutions, among other resolutions, were passed by the shareholders of the Company pursuant to which:

- (a) the Company's Articles of Association was amended and ratified;
- (b) conditional upon:
 - (i) the Listing Committee of the GEM Board of the Stock Exchange granting the listing of and permission to deal in the H Shares to be issued under the Placing (including the additional H Shares which may be made available pursuant to the Over-allotment Option); and
 - (ii) the obligations of the Placing Underwriters under the Placing and Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms or otherwise,

the Placing was approved and the Directors were authorised to issue the H Shares under the Placing (including the additional H Shares which may be issued upon the exercise of the Over-allotment Option); and

- (c) conditional upon:
 - (i) the Listing Committee of the GEM Board of the Stock Exchange granting approval of the Share Option Scheme and the grant of options to subscribe for and the listing of, and permission to deal in, the H Shares falling to be issued pursuant to the exercise of any such option granted under the Share Option Scheme; and
 - (ii) the obligations of the Placing Underwriters under the Placing and Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms or otherwise,

the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to grant options to subscribe for H Shares thereunder and to issue H Shares pursuant to the exercise of any options granted under the Share Option Scheme.

- (d) Pursuant to a resolution passed by the shareholders of the Company on the same date, the board of Directors was authorised to apply to the CSRC for repurchase of and was authorised by the Promoters to repurchase the H Shares to be issued by the Company (including H Shares which may be issued upon the exercise of the Over-allotment Option) up to 10 per cent. of the total amount of the H Shares. Further, upon approval by the CSRC and before any H Shares may be repurchased, the board of Directors will have to obtain a general unconditional mandate (the “Repurchase Mandate”) from the holders of the H Shares (including the H Shares which may be issued upon the exercise of the Over-allotment Option) authorizing any repurchase by the Company of H Shares on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose, of up to 10 per cent. of the total amount of H Shares of the Company to be issued in the Placing (including the H Shares which may be issued under the Over-allotment Option).
- (e) Pursuant to a resolution passed by the shareholders of the Company on the same date and subject to and conditional upon approval of the resolution by the CSRC, a mandate was given to the board of Directors:
- (i) to place and/or issue Domestic Shares and/or H Shares within a period of twelve (12) months from the date of the resolution provided that the number of Domestic Shares and/or H Shares to be placed and/or issued shall not exceed 20 per cent. of the numbers of Domestic Shares and H Shares separately then in issue (“20 per cent. Limit”);
 - (ii) to decide within the 20 per cent. Limit the number of Domestic Shares and/or H Shares to be placed and/or issued and to deal with matters arising out of and incidental to such placement and/or issue of new Shares; and
 - (iii) to make such necessary amendments to articles 17, 18 and 21 of the Articles of Association to reflect changes in the share capital of the Company arising out of such placement and/or issue of Shares;

such mandate to remain in effect for a period of twelve (12) months from the date of passing of the resolution or until the revocation or variation of the mandate by a special resolution of the holders of the Shares.

B. THE REORGANISATION**(1) The Reorganisation**

- (a) The Company was established as a joint stock limited liability company under the Company Law on 29th March, 2000. Its Promoters include the Four Domestic Promoters (namely, Beijing Tianqiao, Jade Bird, Yu Huan and Jade Bird Software, which are under the common control of Peking University), and five other promoters who are foreign investors, namely, New View Venture Limited, Asian Technology Investment Company Limited, Dragon Air Investments Limited, Dynamic Win and Hinet Company Limited.
- (b) Under the Company Law, a joint stock limited liability company is required to have at least five promoters with a minimum authorized share capital of not less than RMB10 million. For the purposes of establishment of the Company and the introduction of strategic investors into the Company, the Four Domestic Promoters contributed businesses and cash through the Reorganisation and the remaining five Promoters, who are foreign investors, contributed cash towards the authorized share capital of the Company.
- (c) The registered capital of the Company to be paid-up by the Promoters was RMB70,000,000. Through the Reorganisation, the Four Domestic Promoters contributed an aggregate of RMB31,000,000 to the registered capital of the Company. The Predecessor Entities (that is, the Four Domestic Promoters (excluding Jade Bird Software) plus the Factory) firstly paid up an aggregate of RMB20,000,000 in cash and then contributed the businesses to be carried on by the Company valued at 31st December, 1999 at approximately RMB18.8 million for the return of the same amount to the Predecessor Entities. Contributions and transfers of the businesses for the return of cash were carried out on 17th April, 2000 upon completion of the valuation of such businesses on 15th April, 2000. Jade Bird Software separately

contributed a sum of RMB11,000,000 in cash towards its share of the capital contribution to the Company. Particulars of the businesses transferred by the Predecessor Entities to the Company are as follows:

Business/assets transferred	Transferor	Consideration
All business, assets, liabilities and technological information and materials relating to GPS technology and related products of Beijing Tianqiao (subject to retention by the transferor of the GPS technology applying 230m frequency band)	Beijing Tianqiao	RMB3,519,250
All business, assets, liabilities and technological information and materials relating to JB-SG2 and related products of Jade Bird	Jade Bird	RMB2,724,765
All business, assets, liabilities and technological information and materials relating to ASIC of Yu Huan	Yu Huan	RMB10,194,882
All business, assets, liabilities and technological information and materials relating to Smart Card Application System and WFAS of the Factory	the Factory	RMB2,387,465

- (d) Upon completion of the Reorganisation, the other five Promoters, who are foreign investors, contributed an aggregate of RMB39,000,000 in cash towards the capital of the Company. By a capital verification report dated 17th April, 2000, the registered capital of the Company was verified as having been fully paid up.

- (e) To support the Company's business operations after the Reorganisation, the following equipment/software/trademarks were leased/licensed to or from the Company by the following lessors/licensors or to the following lessees respectively with effect from 17th April, 2000:

Lease or licence of equipment/software	Lessor/licensor or lessee	Consideration
Non-exclusive licence to use of JB-CASE Software	Beijing Beida Jade Bird Software Company Limited	nil
2 trademarks	Jade Bird Software	nil
Rental of technical equipment	Institute of Microelectronics (lessor)	RMB120 per hour
Rental of technical equipment	Institute of Microelectronics (lessee)	RMB1,260,000 per year
Exclusive licence to use the GPS technology applying 230m frequency band	Beijing Tianqiao	3% royalty fee on GPS products applying 230m frequency band

Further details of the above are set out in the sub-section headed "Connected Transactions" under the section headed "Relationship with Peking University" in this prospectus.

- (f) Upon completion of the Reorganisation and capital contributions by the Four Domestic Promoters and the other five Promoters, the Company is engaged in the design and development of embedded technology and embedded system products. It has five embedded system products, namely, (i) ASIC; (ii) Network Security Products; (iii) Smart Card Application System; (iv) GPS Application System; and (v) WFAS.

C. SUBSIDIARIES

As at the Latest Practicable Date, the Company had no subsidiary.

D. FURTHER INFORMATION ABOUT THE BUSINESS**1. Summary of material contracts**



1. Technology License Agreement dated 17th April, 2000 between Beijing Tianqiao and the Company for a term of 10 years commencing from 17th April, 2000 relating to the exclusive use of GPS technology applying 230m frequency band at a royalty fee of 3% on the total sales of such products payable by the Company to Beijing Tianqiao;
2. Non-competition Agreement dated 17th April, 2000 between the Four Domestic Promoters as Party A and the Company as Party B whereby Party A agrees with Party B not to and procure their respective subsidiaries not to engage or participate directly or indirectly in any business which may compete directly or indirectly with the embedded system business of Party B;
3. Non-competition Agreement dated 17th April, 2000 between Peking University as Party A and the Company as Party B whereby Party A on behalf of the Institutes agrees with Party B not to engage or participate directly or indirectly in any business which may compete directly or indirectly with the embedded system business of Party B;
4. Contract Transfer Agreement dated 17th April, 2000 between Jade Bird and the Company whereby Jade Bird transferred 3 outstanding contracts relating to the development of IC card systems and a rental agreement relating to certain premises at Beijing Zhong Cheng Plaza to the Company at nil consideration;
5. Contract Transfer Agreement dated 17th April, 2000 between Beijing Tianqiao and the Company whereby Beijing Tianqiao transferred 4 contracts relating to the provisions of GPS products and services and an outstanding contract relating to the development of IC card system to the Company at nil consideration;
6. Contract Transfer Agreement dated 17th April, 2000 between Shenzhen Beida Jade Bird Sci-Tech Company Limited (“Shenzhen Beida Sci-Tech”) and the Company whereby Shenzhen Beida Sci-Tech transferred its building lease contract and its supplemental agreement with Shenzhen High and New Technology and Industry Development Company to the Company at nil consideration;
7. Technological Cooperation and Support Agreement dated 17th April, 2000 between the Company as Party A and Yu Huan, Jade Bird Software, Jade Bird and Beijing Tianqiao as Party B for the provision of continuous technical cooperation and support by Party B relating to the research and development of embedded systems to the Company at market price;
8. Technological Cooperation and Support Agreement dated 17th April, 2000 between the Company and Peking University for the provision of continuous technical cooperation and support by Peking University relating to the research and development of embedded systems to the Company at market price;

9. Trademark Licence Agreement dated 17th April, 2000 between Jade Bird Software and the Company for the licence of trademark Nos.722305 and 722306 of Jade Bird Software for the use by the Company for a term of 10 years from the date of the agreement for nil consideration;
10. Technical Equipment Rental Agreement dated 17th April, 2000 between the Institute of Microelectronics and the Company for the lease of equipment more particularly described therein by the Institute of Microelectronics to the Company for a term of 5 years from the date of the agreement with a right given to the Company for earlier termination upon 3 months' notice at any time starting from 17th April, 2003 at an hourly rate of RMB120 per a particular equipment payable by the Company to the Institute of Microelectronics;
11. Technical Equipment Rental Agreement dated 17th April, 2000 between the Company and the Institute of Microelectronics for the lease of equipment more particularly described therein by the Company to the Institute of Microelectronics for a term of 5 years from the date of the agreement with a right given to the Institute of Microelectronics for earlier termination upon 3 months' notice at any time starting from 17th April 2003 at an annual fee of RMB1.26 million payable by the Institute of Microelectronics to the Company;
12. Master GPS Sales Agreement dated 17th April, 2000 between the Company and 四川天目監控保安系統有限公司(Sichuan Tian Mu Monitored Security System Company Limited) relating to the sales of GPS and related products for a term of 10 years commencing from the date of the agreement whereby Sichuan Tian Mu Monitored Security System Company Limited agreed to, among other things, purchase all its requirements of GPS and related products from the Company;
13. Master Network Security Products Sales Agreement dated 17th April, 2000 between Beijing Tianqiao and the Company relating to sales of Network Security Products for a term of 10 years commencing from the date of the agreement whereby Beijing Tianqiao agreed to purchase all its requirements of Network Security Products from the Company;
14. Business Transfer Agreement dated 17th April, 2000 between Beijing Tianqiao and the Company for the transfer of all business, assets, liabilities and technological materials relating to GPS and related products of Beijing Tianqiao to the Company for RMB3,519,250;
15. Business Transfer Agreement dated 17th April, 2000 between the Factory and the Company for the transfer of all business, assets, liabilities and technological materials relating to IC card application system and WFAS and related products of the Factory to the Company for RMB2,387,465;
16. Business Transfer Agreement dated 17th April, 2000 between Yu Huan and the Company for the transfer of all business, assets, liabilities and technological materials relating to ASIC and related products of Yu Huan to the Company for RMB10,194,882;

17. Business Transfer Agreement dated 17th April, 2000 between Jade Bird and the Company for the transfer of all business, assets, liabilities and technological materials relating to JB-SG2 and relating products of Jade Bird to the Company for RMB2,724,765;
18. JB-CASE Technology License Agreement dated 17th April, 2000 between Jade Bird Software Company Limited and the Company for the grant of a non-exclusive license to use the technology relating to JB-CASE to the Company for a term of 10 years from the date of the agreement for nil consideration;
19. Contract Transfer Agreement dated 17th April, 2000 between Peking University and the Company for the transfer by Peking University of an outstanding contract for the installation of WFAS in a government department to the Company at nil consideration;
20. Sub-lease Contract dated 17th April, 2000 between Jade Bird Software and the Company relating to the sub-lease of the office premises at Unit 16, 9th Floor, Beijing New World Centre, North Office Tower, Chongwen District, Beijing, the PRC for a term commencing from 17th April, 2000 to 24th November, 2002 at a monthly rent of US\$11.0 per square metre; and
21. Placing and Underwriting Agreement.

2. Intellectual property rights

As at the Latest Practicable Date, the Company has applied to register the following intellectual property rights in Hong Kong:–

Trademark	Class	Application No.	Filing date
	9	14694/2000	4th July, 2000
	42	14695/2000	4th July, 2000

E. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS, MANAGEMENT AND STAFF

Directors and Supervisors

1. Particulars of service agreements

Each of the Directors and Supervisors has entered into a service contract with the Company for a term of three years. According to the service contracts, each of the Directors and Supervisors will receive an annual salary as specified herein below. The service contracts do not provide any adjustment to the annual salary of the Director.

The executive Directors may be granted certain cash bonus with reference to the profitability of the Company upon the Board's approval (which the interested Directors shall abstain from voting). The maximum aggregate amount of such discretionary bonus payable to all the executive Directors for any financial year shall not be more than 5% of the combined profit after taxation and minority interests for the relevant financial year. The executive Directors shall be entitled to the welfare benefits in accordance with the relevant PRC laws and regulations. Non-executive Directors shall not be entitled to any cash bonus. Each Supervisor will receive an annual salary as specified herein below. The Supervisors will not be paid any benefits in kind other than those generally available to other employees.

The current basic annual salaries of the executive Directors are as follows:

Xu Zhen Dong	RMB150,000
Chen Zhong	RMB150,000
Zhang Wan Zhong	RMB150,000
Xu Zhi Xiang	RMB150,000
Liu Yue	RMB150,000

The current basic annual salaries of the non-executive Directors are as follows:

Yang Fu Qing	RMB20,000
Wang Yang Yuan	RMB20,000
Xing Huan Lou	RMB20,000
Han Ru Qi	RMB20,000
Lo Lin Shing, Simon	RMB20,000

The current basic annual salaries of the independent non-executive Directors are as follows:

Liu Yong Ping	RMB20,000
Nan Xiang Hao	RMB20,000

The current basic annual salaries of the Supervisors of the Company are as follows:

Zhang Yong Li	RMB10,000
Li Chun	RMB80,000
Fan Yi Min	RMB10,000
Du Hong	RMB10,000
Lu Qing	RMB10,000

2. *Directors' and Supervisors' remuneration*

Under the current arrangements, the Directors will be entitled to receive remuneration for the period ending 31st December, 2000 which is expected to be approximately RMB890,000 (approximately HK\$837,726) in aggregate.

Under the current arrangements, the Supervisors will be entitled to receive remuneration for the period ending 31st December, 2000 which is expected to be approximately RMB120,000 (approximately HK\$112,952) in aggregate.

3. *Disclosure of the Directors and Supervisors' interests in the issued share capital of the Company*

Immediately following completion of the Placing, the beneficial interests of the Directors and Supervisors in the share capital of the Company which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have under section 31 of, or Part I of the Schedule to the SDI Ordinance), or which will be required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, or pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange once the Shares are listed, will be as follows:

Director/ Supervisor	Type of interests	Percentage of deemed beneficial interest in the Company's share capital	Number of Shares
Xu Zhen Dong	Other	8.178%	7,687,414
Zhang Wan Zhong	Other	2.312%	2,173,224
Liu Yue	Other	2.312%	2,173,224
Xu Zhi Xiang	Other	0.860%	808,650
Chen Zhong	Other	0.860%	808,650
Yang Fu Qing	Other	1.290%	1,212,975
Wang Yang Yuan	Other	1.290%	1,212,975
Zhang Yong Li*	Other	0.430%	404,325
Li Chun*	Other	0.036%	33,668
Fan Yi Min*	Other	0.016%	15,160

* *Supervisors*

Notes:

Each of the deemed beneficial interests of the above Directors and Supervisors is held through his/her entitlement in the trust of Heng Huat. Heng Huat and Gameraian Limited are the two shareholders beneficially entitled to approximately 93.372% and approximately 6.628% respectively in the issued share capital of Dynamic Win. Dynamic Win is one of the Promoters beneficially entitled to 22,000,000 Promoters Shares. By virtue of their respective entitlements in Heng Huat, the Directors and Supervisors are deemed to be interested in the number of Promoters Shares set opposite to their respective names above.

1. Save as disclosed in this prospectus:

- (a) none of the Directors or Supervisors has any interest in the equity or debt securities of the Company or any associated corporations (if any) (within the meaning of the SDI Ordinance) which, once the H Shares are listed, will be required to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they are taken or deemed to have under section 31 of, or Part 1 of the Schedule

- to, the SDI Ordinance) or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein once the Shares are listed or which will be required pursuant to rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by director to be notified to the Company and the Stock Exchange once the shares are listed;
- (b) so far as is known to any Director or Supervisor, there is no person who will, immediately following the completion of the Placing, be directly or indirectly interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or its subsidiaries (if any);
 - (c) save as referred to above, there are no existing or proposed service contracts (excluding contracts expiring or terminable by the employer within one year without payment of compensation (other than statutory compensation)) between any member of the Company and any of the Directors or Supervisors;
 - (d) none of the Directors or Supervisors other than the persons referred to in paragraph E of this appendix is interested in the promotion of the Company, or in any assets which have been within the two years immediately preceding the date of this prospectus acquired or disposed of by or leased to any member of the Company, or are proposed to be so acquired, disposed of or leased;
 - (e) no Director or Supervisor is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Company.
 - (f) none of the Directors or Supervisors has any shareholding in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Company;
 - (g) none of the Directors, Supervisors, their associates (as defined in the GEM Listing Rules) or any shareholder of the Company (which to the knowledge of the Directors owns more than 5 per cent. of the issued share capital of the Company) has any interest in any of the Company's five largest suppliers or five largest customers; and
 - (h) save as disclosed, none of the Directors, Supervisors is a director or employee of a company which has an interest in the share capital of the Company which, once the Shares are listed, would fall to be disclosed to the Company under the provisions of Part II of the SDI Ordinance:—

- (i) Prof. Yang Fu Qing is the legal representative of Jade Bird Software;
- (ii) Mr. Xu Zhen Dong, Prof. Zhang Wan Zhong, Prof. Liu Yue and Mr. Lo Lin Shing, Simon are directors of Dynamic Win; and
- (iii) Mr. Xu Zhen Dong, Prof. Zhang Wan Zhong and Prof. Liu Yue are directors of Heng Huat.

F. SUMMARY OF TERMS OF THE SHARE OPTION SCHEME

1. The following is a summary of the principal terms of the Share Option Scheme conditionally approved by a resolution of the shareholders of the Company dated 5th July, 2000. Adoption of the Share Option Scheme is conditional upon satisfaction of the conditions set out in sub-paragraph 1 (16) below.

(1) Who may join

The Board may, at its discretion, invite any full-time employees including any executive director of the Company or its subsidiaries, if any, (“Employees”) to take up options to subscribe for H Shares at a price calculated in accordance with sub-paragraph (5) below, except that Employees who are PRC nationals and have taken up any options to subscribe for H Shares shall not be entitled to exercise the options until (a) the current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H Shares or any laws or regulations with similar effects (“H Shares Restrictions”) have been abolished or removed; and (b) the CSRC or other relevant government authorities in the PRC have approved the new issue of shares upon the exercise of any options which may be granted under the Share Option Scheme.

(2) Offer of Options

Any offer of options must not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules. In particular, during the period of one month immediately preceding the preliminary announcement of annual results or the publication of interim results, no option should be granted until such information has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules.

(3) Payment on acceptance of option offer

RMB1 is payable by the Employee to the Company on acceptance of the option offer.

(4) Terms and Conditions of Options

Any offer of options to Employees who are PRC nationals must be made upon the condition, among others, that no options so taken up by any such Employees shall be exercised until (a) the H Shares Restrictions have been abolished or removed; and (b) the CSRC or other relevant government authorities in the PRC have been obtained for the exercise of any options which may be granted under the Share Option Scheme. Subject to the above, options may be granted on such terms and conditions in relation to their vesting, exercise or otherwise (e.g. by linking their exercise to the attainment or performance of milestones by any member of the Group, the grantee or any group of Employees) as the Board may in its absolute discretion determine, provided such terms and conditions shall not be inconsistent with any other terms and conditions of the Share Option Scheme. The Board shall not grant any offer of options to any Employee without first ascertaining whether such Employee is a PRC national subject to the H Shares Restrictions.

(5) Price of Shares

The subscription price for H Shares under the Share Option Scheme will be determined by the Board and notified to each grantee and will be no less than the higher of (a) the closing price of the H Shares as stated in the Stock Exchange's daily quotations sheet on the date of offer, which must be a business day, (b) the average closing prices of the H Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer and (c) the nominal value of a H Share.

(6) Maximum number of H Shares

The total number of H Shares subject to the Share Option Scheme and any other schemes must not, in aggregate, exceed 30% (or such higher percentage as may be allowed under the GEM Listing Rules) of Shares of the Company in issue from time to time (excluding (a) H Shares issued upon the exercise of options granted pursuant to the Share Option Scheme and any other schemes; and (b) any pro rata entitlements to further Shares issued in respect of those H Shares mentioned in (a)) during the period of 10 consecutive years commencing on 5th July, 2000. Subject to this:

- (a) the total number of H Shares available for issue under options which may be granted under the Share Option Scheme and any other scheme, must not in aggregate, exceed 10% of the number of Shares of the Company in issue from time to time unless further shareholders' approval has been obtained pursuant to paragraph (b) or (c) or (d) below;
- (b) the Company may seek approval by shareholders in general meeting to renew such 10% limit. However, the total number of H Shares available for issue under options which be granted under the Share Option Scheme and other such schemes of the Company in these circumstances must not exceed 10% of the number of Shares of the Company at the date of the approval to renew the limit;

- (c) the Company may seek separate shareholders' approval in general meeting to grant options beyond the 10% limit provided that (i) the total number of H Shares subject to the Share Option Scheme and other such schemes of the Company does not in aggregate exceed 30% of the total number of Shares of the Company at the date of approval and (ii) the options in excess of the 10% limit are granted only to participants specified by the Company before such approval is sought; and
- (d) the Company may seek a separate shareholders' approval in general meeting to grant options beyond the 10% limit to participants specified by the Company.

No Employee shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of H Shares for the time being issued or issuable under the Share Option Scheme.

(7) Time of exercise of option

No Employees who are PRC nationals and have taken up any options to subscribe for H Shares shall be entitled to exercise any such options until (a) the H Shares Restrictions have been abolished or removed and; (b) approvals have been obtained from the CSRC or other relevant government authorities in the PRC for the exercise of any option which may be granted under the Share Option Scheme. Subject to the above, an option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period (the "Option Period") to be notified by the Board to each grantee provided that the period within which the option must be exercised shall be not less than three years and not more than 10 years from the date of grant of the option.

(8) Rights are personal to grantee

An option is personal to the grantee and shall not be transferred, assigned, charged, mortgaged or encumbered and no grantee shall create any third party interest over or in relation to any option.

(9) Rights on ceasing employment, death, takeover, compromise or voluntary winding-up

Subject to the following and subject to the H Shares Restrictions having been abolished or removed and approvals have been obtained from the CSRC and any other relevant government authorities in the PRC for the exercise of any options which may be granted under the Share Option Scheme, an option may be exercised by the grantee (or his personal representative) after the occurrence of the events as follows:

- (a) Rights on ceasing employment

If the grantee of an option ceases to be an Employee for any reason other than death, misconduct or certain other grounds, the grantee may exercise the option up to the grantee's entitlement at the date of cessation (to the extent not already exercised) within the period of three months following the date of such

cessation, which date shall be the last actual working day with the relevant company in the Group whether salary is paid in lieu of notice or not failing which the option will lapse.

(b) Rights on death

If the grantee of an option dies before exercising the option in full and none of certain events which would be a ground for termination of his or her employment arises, the personal representative(s) of the grantee shall be entitled within a period of twelve months from the date of death to exercise the option up to the entitlement of the grantee as at the date of death (to the extent not already exercised).

(c) Rights on take-over

If a general offer by way of take-over is made in the PRC and/or Hong Kong to all the holders of H Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and, in the case of a general offer in the PRC, such general offer obligation is not exempted by the CSRC and in the case of a general offer in Hong Kong, such offer becomes or is declared unconditional, the grantee (or his or her personal representative(s)) may by notice in writing to the Company within 21 days of such notice exercise the option (to the extent not already exercised) to its full extent or to the extent specified in such notice.

(d) Rights on a compromise

If a general offer by way of a scheme of arrangement is made to all the holders of Shares and the scheme has been approved by the necessary number of holders of Shares at the requisite meetings, the grantee (or his or her personal representatives) may thereafter (but before such time as shall be notified by the Company) by notice in writing to the Company exercise the Option to its full extent or to the extent specified in such notice; and

(e) Rights on voluntarily winding-up

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it despatches such notice to each member of the Company give notice thereof to all grantees (together with a notice of the exercise of the provisions of this paragraph) and thereupon, each grantee (or his or her personal representatives) shall be entitled to exercise all or any of his options at any time not later than two business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the H Shares in respect

of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant H Shares to the grantee credited as fully paid. A notice given by the Company to the holders of the Shares for the purposes of considering, and if thought fit, approving a resolution for (a) the merger or division of the Company which shall lead to the dissolution of the Company; or (b) the dissolution of the Company under the relevant provisions of the Company Law or the Articles of Association shall be a notice to convene a general meeting to consider a resolution within the meaning of a resolution to voluntarily wind-up the Company for the purposes of the clause.

(10) Effects of alterations to capital

In the event of an alteration in the capital structure of the Company whilst any option remains exercisable, such corresponding alterations (if any) certified by an independent financial advisor or the auditors for the time being of the Company as fair and reasonable will be made in the subject matter of the option so far as unexercised or the subscription price, provided that no such alteration shall be made so that a H Share would be issued at less than its nominal value or which would give a grantee a different proportion of the issued share capital of the Company as that to which he or she was previously entitled and no alteration shall be made if any alteration in the capital structure of the Company is the result of an issue of Shares as consideration in a transaction.

(11) Lapse of Option

- (a) Subject to sub-paragraph (11)(b) below, an option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:
 - (i) the expiry of the Option Period;
 - (ii) the expiry of the periods referred to in sub-paragraphs 1(9)(a), (b) and (c) respectively;
 - (iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in subparagraph 1(9)(d);
 - (iv) the date on which the grantee of an option ceases to be an Employee by reason of the termination of his or her employment on grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence;
 - (v) the date of the commencement of the voluntary winding-up of the Company referred to in sub-paragraph 1(9)(e); or

- (vi) the date on which the grantee commits a breach of sub-paragraph 1(8); or
- (b) If a grantee who is a PRC national shall cease to be an Employee or shall die before ceasing to be an Employee, or if a general offer by way of a takeover or by way of a scheme of arrangement or if a voluntary winding-up of the Company shall be commenced before the conditions relating to H Shares Restrictions having been fulfilled or satisfied or before approvals by the CSRC or other relevant government authorities in the PRC have been obtained for the exercise of any options which may be granted under the Share Option Scheme, the option granted shall immediately lapse.

(12) Ranking of H Shares

The H Shares to be allotted upon the exercise of an option will be subject to the Company's Articles of Association for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date of exercise of the option and in particular will rank in full for all dividends or other distributions declared paid or made on or after the date of exercise of the option other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor is before the date of exercise of the option.

Unless the context otherwise requires, references to "H Shares" in the Share Option Scheme include references to shares in the Company of any such nominal amount as shall result from a sub-division consolidation, reclassification or reconstruction of the share capital of the Company from time to time.

(13) Cancellation of Options granted

Any cancellation of options granted but not exercised must be approved by shareholders of the Company in general meeting, with participants and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation must be taken by poll.

(14) Period of Share Option Scheme

The Share Option Scheme will remain valid for a period of 10 years commencing on 5th July, 2000 (save that the Company, by ordinary resolution in general meeting or Board may at any time terminate the operation of the Share Option Scheme). After termination, no further options will be granted but the provisions of the Share Option Scheme shall in all other respects remain in full force and effect and options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(15) Alteration to Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Scheme relating to matters contained in rule 23.03 of the GEM Listing Rules shall not be altered to extend the class of persons eligible for the grant of options or to the advantage of grantees or prospective grantees except with the prior approval of the shareholders of the Company in general meeting (with participants and their associates abstaining from voting) and, where appropriate, by a separate general meeting of the holders of H Shares. No such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the Company's shareholders under the Company's Articles of Association for the time being for a variation of the rights attached to the Shares.

Any alteration to the terms and conditions of the Share Option Scheme, which are of a material nature, must be approved by the Stock Exchange, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

(16) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on (a) the GEM Listing Committee of the Stock Exchange granting approval of the Share Option Scheme and any options which may be granted thereunder and the listing of and permission to deal in any Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme; and (b) the obligations of the Placing Underwriters under the Placing and Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of that agreement or otherwise. Application has been made to the GEM Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the granting of the options under the Share Option Scheme and the listing of and permission to deal in the H Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme.

(17) Administration

The Share Option Scheme is administered by a committee including the independent non-executive Directors. References to the Board in respect of the administrative matters of the Share Option Scheme shall mean the committee of the Board established under this sub-paragraph 1(17).

2. Present status of the Share Option Scheme

(1) Approvals of the GEM Listing Committee required

The Share Option Scheme is conditional on, among other things, the GEM Listing Committee of the Stock Exchange granting approval of such scheme, the subsequent grant of options by the Company pursuant thereon and the listing of and permission to deal in any H Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(2) Application for approvals

Applications have been made to the GEM Listing Committee of the Stock Exchange for the approvals referred to in sub-paragraph (1) above.

(3) Grant of option

As at the date of this prospectus no options have been granted or agreed to be granted under the Share Option Scheme.

(4) Grant of options to a connected person

Under the GEM Listing Rules, any grant of options to a connected person (as defined in the GEM Listing Rules) must be approved by the independent non-executive Directors of the Company.

Where options are proposed to be granted to a connected person who is also a substantial shareholder or its associates (as such term is defined in the GEM Listing Rules) of the Company and the proposed grant of options, when aggregated with the options already granted to that connected person in the past 12 months period, would entitle him to receive more than 0.1% of the total issued Shares of the Company for the time being and the value of which is in excess of HK\$5 million, then the proposed grant must be subject to the approval of shareholders in general meeting. Apart from the connected person involved, all other connected persons of the Company must abstain from voting at such general meeting (except where any connected person intends to vote against the proposed grant). A shareholders' circular must be prepared by the Company explaining the proposed grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent non-executive Directors on whether or not to vote in favour of the proposed grant.

G. OTHER INFORMATION**1. Tax Indemnity and Estate Duty**

Under the Placing and Underwriting Agreement, the Four Domestic Promoters have undertaken to and covenanted with the Company and the Placing Underwriters that they will indemnify and keep the Company indemnified against any and all tax liability falling on the Company which might be payable by the Company in respect of any income, profits or gains earned, accrued or received on or before the date of the Placing and Underwriting Agreement, save in the following circumstances:

- (a) to the extent that provision has been made for such taxation in the audited combined accounts of the Company up to 31st December 1999;
- (b) to the extent that such claim arises or is incurred as a result of the imposition of taxation as a consequence of any retrospective change in the law or the interpretation or practice thereof coming into force after the date of the Placing and Underwriting Agreement or to the extent such claim arises or is increased by an increase in rates of taxation after the date of the Placing and Underwriting Agreement with retrospective effect; and
- (c) to the extent that such tax liability has not been specifically assumed by the Company pursuant to the Reorganisation.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries under PRC law.

2. Litigation

Neither the Company nor any other member of the Group is engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation, arbitration or claim of material importance is pending or threatened against the Company or any member of the Group.

3. Sponsors

- (a) Tai Fook Capital has made an application on behalf of the Company to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the H Shares in issue and to be issued as mentioned herein and any new H Shares which may fall to be issued upon the exercise of options granted under the Share Option Scheme.
- (b) Tai Fook Capital will receive normal professional fees in connection with the advisory services to be provided to the Company for a term period covering the remainder of the financial year ending 31st December, 2000 and the two financial years thereafter.
- (c) Tai Fook Securities, an associate of Tai Fook Capital, being the Placing Underwriter will receive underwriting commission pursuant to the Placing and Underwriting Agreement.

4. No material adverse change

Save as disclosed in this prospectus, the Directors believe that there has been no material adverse change in the financial or trading position or prospects of the Company since 31st December, 1999.

5. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately RMB40,000 (approximately HK\$38,000) and are payable by the Company.

6. Promoters

The promoters of the Company are Jade Bird Software, Yu Huan, Jade Bird, Beijing Tianqiao, New View Venture Limited, Asian Technology Investment Company Limited, Dragon Air Investments Limited, Dynamic Win and Hinet Company Limited. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the Promoters in connection with the Placing or the related transactions described in this prospectus.

7. Qualifications of experts

Name	Qualifications
Tai Fook Capital	Registered investment advisor
Arthur Andersen & Co.	Certified public accountants
Jingtian & Gongcheng	PRC lawyers
Sallmanns (Far East) Limited	Property Valuers

8. Consents of experts

Each of Tai Fook Capital, Arthur Andersen & Co., Jingtian & Gongcheng and Sallmanns (Far East) Limited has given and has not withdrawn its written consent to the issue of this prospectus with inclusion of its report and/or letter and/or valuation certificates and/or the references to its name in the form and context in which they are respectively included.

9. Binding effect

This document shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance of Hong Kong so far as applicable.

10. Miscellaneous

Save as disclosed in this prospectus:

- (a) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries, if any, has been issued or agreed fully or partly paid either for cash or a consideration other than cash;
- (b) no share or loan capital of the Company or any of its subsidiaries, if any, is under any option or is agreed conditionally or unconditionally to be put under option;
- (c) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries, if any;
- (d) there are no founders, management or deferred shares in the Company.