



浙江浙大網新蘭德科技股份有限公司
ZHEDA LANDE SCITECH LIMITED

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Placing

Global Co-ordinator and Sponsor



Core Pacific - Yamaichi Capital Limited

Lead Manager

Core Pacific - Yamaichi International (H.K.) Limited

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.



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ZHEDA LANDE SCITECH LIMITED*

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**LISTING ON THE GROWTH ENTERPRISE MARKET
OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

PLACING OF H SHARES

Number of Placing Shares : 97,500,000 H Shares (subject to
the Over-allotment Option)
Placing Price : not more than HK\$0.95 per H Share
Nominal Value : RMB0.10 each
Stock Code : 8106

Global Coordinator and Sponsor



Core Pacific - Yamaichi Capital Limited

Lead Manager

Core Pacific - Yamaichi International (H.K.) Limited

Co-Managers

First Shanghai Securities Limited
CM-CCS Securities Limited
Shun Loong Securities Co., Ltd.
Tai Fook Securities Company Limited

CAF Securities Company Limited
MasterLink Securities (H.K.) Corp. Ltd.
Kingsway SW Securities Ltd.
YF Securities Company Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Company is incorporated, and its business is located, in the PRC. Potential investors in the Company should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in PRC-incorporated companies. Potential investors should also be aware that the regulatory framework in the PRC is different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the shares of the Company. Such differences and risk factors are set out in the sections headed "Risk Factors" and "Appendix V — Summary of relevant PRC and Hong Kong laws and regulations and the Articles of Association" to this prospectus.

* for identification purposes only

CHARACTERISTICS OF THE GEM

The GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on the GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of the GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on the GEM, there is a risk that securities traded on the GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on the GEM.

The principal means of information dissemination on the GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on the GEM-listed issuers.

EXPECTED TIMETABLE

Price Determination Time at or before (*Note 1*) 12:00 noon on Thursday, 25th April, 2002

Announcement of the final Placing Price and
the level of indication of interest in the Placing
to be published on the GEM website at *www.hkgem.com* Tuesday, 30th April, 2002

Share certificates available on or before (*Note 2*) Tuesday, 30th April, 2002

Allotment to placees on or about Tuesday, 30th April, 2002

Dealings in Shares on the GEM to commence on or about Friday, 3rd May, 2002

Notes:—

- (1) The Price Determination Time is at or before 12:00 noon on 25th April, 2002. If, for any reason, the Placing Price is not agreed between Core Pacific – Yamaichi International (H.K.) Limited (on behalf of the Underwriters) and the Company by 12:00 noon on 25th April, 2002, the Placing will not become unconditional and will lapse.
- (2) The share certificates are expected to be deposited into CCASS on or about 30th April, 2002 for credit to the respective CCASS Participants' stock accounts of the Underwriters. No temporary documents of title will be issued.
- (3) For details of the structure of the Placing, including the conditions thereto, see the section headed "Structure and conditions of the Placing" in this prospectus.
- (4) In the event of any change to the expected timetable as set out in this prospectus, an announcement will be made accordingly.
- (5) All times refer to Hong Kong local time.

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You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors or any other person involved in the Placing.

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SUMMARY

The following information is derived from, and should be read in conjunction with, the full text of this prospectus.

BUSINESS

The Group is a provider of telecommunications solutions in the PRC, serving telecommunications operators, ISPs and ICPs in 19 provinces and 3 directly administered municipalities. Established on 13th November, 1996 in the PRC, the Group is one of the first providers of wireless value-added systems in the PRC with major customers including China Unicom, China Mobile and China Telecom.

The Group's telecommunications solutions are categorised into two major business lines, namely the data communication solutions and the telecom operation solutions. The data communication solutions are designed to enable telecommunications operators to offer a wide range of telecommunications services over the wireless network and the Internet, which ultimately serve the wireless and Internet end-users. These solutions include the wireless communication system, the data switch platform, the wireless value-added systems and the large capacity e-mail system. The telecom operation solutions are designed to enhance the telecommunications operators' operational efficiency in internal data processing and inter-departmental communication. These solutions include the broadband Internet CRM systems and the telecom office automation system. As part of the telecommunications solutions business, the Group also sells networking hardware products to telecommunications operators through third party sub-distributors. The Directors consider the trading of hardware as part of its customer relation management and business promotion plans. Through trading of hardware, the Group can provide value-added services to its existing customers and make use of the sub-distributors' business networks to expand the Group's business and clientele.

The Group is mainly managed by a group of Zhejiang University professors and graduates, most of whom have been conducting extensive research on wireless communication systems since 1992. As at the Latest Practicable Date, the Group employed a total of 187 employees, including 155 full time employees and 32 part time employees, of which 49 are R&D staff.

The Group has strong relationship with Zhejiang University, with which it has established a research institute, the Zhejiang University Lande Software Technology Research Center (the "Research Center"), to conduct R&D on telecommunications solutions. The Research Center provides the Group with a resourceful channel to keep abreast of advanced telecommunications technologies and provides an abundant supply of valuable technical expertise from Zhejiang University's Department of Computer Science and Technology.

Through business collaboration and strategic alliances with multinational and PRC national companies such as IBM, CA and Qware Science, the Group is able to further expand its sales distribution network, enhance its brand awareness and improve on its solutions' functionalities.

SUMMARY

Data communication solutions currently dominate the Group's business. The turnover generated from data communication solutions for each of the three years ended 31st December, 2001 amounted to approximately RMB4.6 million, RMB23.1 million and RMB45.9 million respectively, representing 100%, 100% and approximately 71.5%, respectively of the Group's turnover for the same financial years. The telecom operation solutions business and the trading of hardware only commenced in the year ended 31st December, 2001 and generated turnover of approximately RMB9.1 million and RMB9.2 million respectively, representing approximately 14.2% and 14.3% respectively of the Group's turnover for the same financial year. The wireless value-added systems, which are part of the data communication solutions, are currently the major revenue generators of the Group. The turnover generated from wireless value-added systems for each of the three years ended 31st December, 2001 amounted to approximately RMB0.5 million, RMB8.8 million and RMB18.9 million respectively, representing approximately 10.9%, 38.1% and 29.4% respectively of the Group's turnover for the same financial years. Anticipating the significant growth potential amid the increasing popularity of SMS and demand for data communication services in the PRC, the Directors believe that the data communication solutions business will continue to enjoy significant growth in the foreseeable future. Furthermore, the Directors believe that increasing competition among telecom operators in the PRC's telecommunications industry shall lead to strong demand for the Group's telecom operation solutions.

BUSINESS OBJECTIVES AND STRATEGIES

The Group's overall business objective is to continue enhancing the qualities of its existing solutions and products and conducting R&D on advanced telecommunications solutions, in order to create new revenue-generating channels for both the Group and the telecommunications operators. In particular, the Group plans to expand its R&D on a wide range of wireless value-added systems to support the growing demand for more sophisticated telecommunications solutions. Moreover, the Group aims to build an efficient sales channel and national distribution network through strategic alliances, investments and acquisitions. The Group also aims to build the  brand as one of the leading telecommunications solutions providers in the PRC. The Group will continue to develop its system integration business and to expand its customer base.

In an attempt to become the leading telecommunications solutions provider in the PRC, the Group will continue to upgrade its solutions and products to keep abreast of the growing demand for advanced telecommunications technologies, create strategic alliances, conduct related investments, maintain its relationship with Zhejiang University and expand its sales and marketing network.

Compliance with evolving standards

The Group focuses on the R&D of advanced software and system integration for telecommunications operators in the PRC. The Group keeps abreast of domestic market trends and works closely with its customers to identify the market needs and define solution specifications early in the development process. This approach results in a thorough understanding of the end-user's requirements prior to the commencement of the design process. The Group believes that its telecommunications solutions will continue to meet the requirements of telecommunications operators in the PRC.

Creating strategic alliances and conducting related investment

The Group will continue to create strategic alliances with domestic and multinational companies to enhance its brand awareness, practice joint sales and cross-promotional activities and expand distribution capabilities. The Group will also consider investing in or acquiring telecommunications related companies that may further enhance the overall value of the Group.

Maintaining relationship with Zhejiang University

The Directors believe that the ability to keep abreast of advanced technologies and market trends of telecommunications solutions is the key to the Group's financial success. Hence, the Directors intend to maintain the Group's well established relationship with Zhejiang University and to access its abundant supply of technical expertise. The Group works closely with the Department of Computer Science and Technology of Zhejiang University through the Research Center, jointly established with Zhejiang University on 24th September, 2001. The Research Center serves as an alpha testing facility for the Company to experiment and test existing and potential telecommunications solutions as instructed by the R&D department of the Company, with the aim of enhancing the quality and efficiency of existing products and nurturing advanced telecommunications technologies.

Expanding sales and marketing network

The Group intends to increase its sales and marketing network in the PRC by expanding its sales force and marketing programs. The Group's sales force and engineers are knowledgeable in a wide variety of telecommunications platforms and software environments and are able to provide related consultancy services to the Group's customers. The sales and marketing programs include: (a) extending its geographical reach and expanding its distribution network in the PRC by setting up representative offices; (b) expanding the Group's marketing department; (c) participating in major exhibitions and conducting seminars and trade shows with a view to enhancing its brand awareness; (d) launching extensive advertising campaigns; and (e) conducting joint sales and cross-promotional activities with strategic alliances.

SUMMARY

SHAREHOLDING STRUCTURE

Set out below is a summary of the shareholding structure of the Group immediately before and after the Placing:

Promoters (Note 3)	Percentage of shareholding immediately before Placing %	Number of Shares held immediately before Placing (Note 1)	Approximate average cost of investment per Share RMB (Note 1)	Date of first entry (Note 1)	Number of Shares held immediately after Placing	Percentage of shareholding immediately after Placing %	Moratorium period under GEM Listing Rules	Restriction of transfer of Domestic Shares under Company Law (Note 2)	Total cost of investment or cash contribution RMB (Note 4)
Initial Management Shareholder, Substantial Shareholder and Director									
Chen Ping	16.00%	36,392,320	0.008	28th May, 1998	36,392,320	11.20%	12 months	three years	306,850
Initial Management Shareholders and Substantial Shareholders									
Zhejiang Qware	15.00%	34,117,800	0.147	27th June, 2001	34,117,800	10.50%	12 months	three years	5,000,000
Beijing Guoheng	15.00%	34,117,800	0.220	19th April, 2001	34,117,800	10.50%	12 months	three years	7,500,000
Zhejiang Innovation	15.00%	34,117,800	0.147	27th June, 2001	34,117,800	10.50%	12 months	three years	5,000,000
Initial Management Shareholders and Directors									
Bao Shu-xin	3.80%	8,643,170	0.004	28th May, 1998	8,643,170	2.66%	12 months	three years	34,550
Chen Chun	1.80%	4,094,130	0.004	7th March, 2001	4,094,130	1.26%	12 months	three years	16,350
Initial Management Shareholders									
Wu Zhong-hao	7.25%	16,490,280	0.004	13th November, 1996	16,490,280	5.07%	12 months	three years	65,900
Shi Chun-hua	7.25%	16,490,280	0.004	13th November, 1996	16,490,280	5.07%	12 months	three years	65,900
Chen Guo-cai	4.50%	10,235,340	0.004	13th November, 1996	10,235,340	3.15%	12 months	three years	40,900
Liu Qiao Ping	4.50%	10,235,340	0.008	7th March, 2001	10,235,340	3.15%	12 months	three years	77,350
Wang Jin-cheng	3.30%	7,505,910	0.004	28th May, 1998	7,505,910	2.31%	12 months	three years	30,000
Wang Lei-bo	3.30%	7,505,910	0.004	28th May, 1998	7,505,910	2.31%	12 months	three years	30,000
Huo Zhong-hui	1.80%	4,094,130	0.004	7th March, 2001	4,094,130	1.26%	12 months	three years	16,350
Jin Lian-fu	1.50%	3,411,790	0.004	7th March, 2001	3,411,790	1.06%	12 months	three years	13,650
	<u>100.00%</u>	<u>227,452,000</u>			<u>227,452,000</u>	<u>70.00%</u>			<u>18,197,800</u>

SUMMARY

Notes:

- (1) Hangzhou Land, the predecessor to the Company, increased its registered capital from RMB4,545,400 to RMB22,745,200 and was reorganised and then incorporated into a joint stock company with limited liability under the Company Law on 20th September, 2001.

Each of the Promoters subscribed its shareholding interest at a consideration of RMB1.00 per Share at the time of establishment of the Company.

- (2) In accordance with Article 147 of the Company Law, Promoters' Shares shall not be transferred within three years after the Company's establishment. Since the Company was reorganised and then incorporated from a limited liability company to a joint stock company with limited liability on 20th September, 2001, the Promoters' Shares may not be transferred until 20th September, 2004.
- (3) Please refer to the notes as disclosed in the paragraph headed "Shareholding and Group Structure" in the section headed "General Overview of the Group" to this prospectus for information on the Promoters.
- (4) Total cost of investment or cash contribution refers to the actual cash contribution made by each of the Promoters without taking into account any capitalization issue. The Company made two capitalization issues respectively on 15th March, 2001 and 20th September, 2001.

COMPETITIVE STRENGTHS

The Directors believe that the Group enjoys the following competitive strengths:

- Strong working relationship with Zhejiang University in respect of the joint establishment of the Research Center to conduct R&D on telecommunications solutions, access and apply advanced telecommunications technologies and access on abundant supply of technical expertise from Zhejiang University;
- Experienced management team in the development of telecommunications solutions and understands the telecommunications industry in the PRC and its technological development trends;
- Extensive market coverage in the PRC where the Group has signed service agreements with major telecommunications operators, such as China Unicom, China Mobile and China Telecom, in providing telecommunications solutions in 19 provinces and 3 directly administered municipalities in the PRC;
- Strategic alliances with reputable multinational and national companies in the software and telecommunications industries to enhance the Group's distribution channels and provide the Group with the latest technological developments; and
- Quality after-sales support in ensuring customer satisfaction and client retention.

SUMMARY

TRADING RECORD

The following table summarizes the Group's consolidated income statements for each of the three years ended 31st December, 2001 (the "Relevant Periods"). The following summary is prepared based on the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

	For the year ended 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Turnover (<i>Note 1</i>)	4,621	23,151	64,199
Cost of sales	<u>(2,469)</u>	<u>(17,047)</u>	<u>(36,583)</u>
Gross profit	2,152	6,104	27,616
Operating expenses			
Selling expenses	(1,207)	(1,671)	(2,842)
General and administrative expenses	(2,509)	(2,274)	(6,766)
Other expenses, net	<u>(3)</u>	<u>(10)</u>	<u>(15)</u>
(Loss)/profit from operations	(1,567)	2,149	17,993
Finance income/(costs), net	7	9	(198)
Loss from an associate (<i>Note 2</i>)	<u>—</u>	<u>(53)</u>	<u>(307)</u>
(Loss)/profit before taxation and minority interests	(1,560)	2,105	17,488
Income tax expenses	<u>189</u>	<u>(326)</u>	<u>(2,987)</u>
(Loss)/profit after taxation but before minority interests	(1,371)	1,779	14,501
Minority interests	<u>—</u>	<u>24</u>	<u>338</u>
Net (loss)/profit	<u>(1,371)</u>	<u>1,803</u>	<u>14,839</u>
Dividends	<u>—</u>	<u>—</u>	<u>459</u>
(Loss)/earnings per share (<i>Note 3</i>)			
— Basic	<u>(RMB0.006)</u>	<u>RMB0.008</u>	<u>RMB0.065</u>
— Diluted	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>

SUMMARY

Notes:

1. The Group is principally engaged in the provision of telecommunications solutions for telecommunications operators, ISPs and ICPs. Provision of telecommunications solutions involves the designing, planning, installation and implementation of network communication projects, which consists of sales of networking hardware and software and provision of technical support services. Commencing from the year ended 31st December, 2001, the Group also carries on the business of trading of computer hardware, which involves the selling of networking equipment through third party sub-distributors to telecommunications operators, who are the end-users.

Turnover represents revenue from sales of hardware and software, and revenue from provision of technical support services, after excluding applicable business tax and value-added tax. An analysis of the turnover and cost of sales of the Group for the Relevant Periods is set out as follows:

	For the year ended 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Turnover			
Provision of telecommunications solutions			
— sale of software	1,810	8,120	19,069
— sale of hardware	1,460	12,370	27,487
— provision of technical support services	1,351	2,661	8,462
	4,621	23,151	55,018
Trading of hardware	—	—	9,181
	4,621	23,151	64,199
Cost of sales			
Provision of telecommunications solutions			
— sale of software	479	4,737	2,297
— sale of hardware	1,362	11,386	24,683
— provision of technical support services	628	924	1,483
	2,469	17,047	28,463
Trading of hardware	—	—	8,120
	2,469	17,047	36,583

2. Loss from an associate comprises of share of loss from and provision for impairment of the investment in Hangzhou Tour Electronic Commerce Co. Ltd. (杭州旅遊電子商務有限公司) (“Hangzhou Tour”). The Group invested RMB360,000 in Hangzhou Tour in 2000, representing 24% equity interest therein and had planned to expand business in electronic commercial services. However, the results of operations of Hangzhou Tour were not satisfactory and this associate reported recurring losses for the two years ended 31st December, 2001. Based on management’s estimate for Hangzhou Tour’s future operation, full provision has been made to the investment in Hangzhou Tour as at 31st December, 2001.
3. (Loss)/earnings per share have been computed by dividing the net (loss)/profit for each of the Relevant Periods by the number of 227,452,000 Shares in issue as if the sub-division of the Company’s Shares as described in Appendix VI “Statutory and general information” to this prospectus had taken place at the beginning of the Relevant Periods and as if those Shares had been issued and outstanding throughout the Relevant Periods. No diluted (loss)/earnings per share were presented as there were no dilutive potential ordinary shares issued for each of the Relevant Periods.

DIVIDENDS

The Company declared a dividend of RMB459,600 to its shareholders in March 2001.

RISK FACTORS

The Directors consider that the operations and results of the Group are subject to certain risks which can be categorized into (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to the PRC; (iv) risks relating to the Placing; and (v) issues to consider in relation to certain statements made in this prospectus. They are summarized as follows:

(i) Risks relating to the Group

- Reliance on support from Zhejiang University
- Reliance on key personnel
- Sustainability of profit
- Reliance on major customers
- Continuity of trading business
- Uncertainty in future expansion
- Uncertainty in dividend distribution policy
- Accumulation of accounts receivable
- Reliance on system software and development tools
- Competition
- Permits, certificates and business licences
- Research and development risks
- Intellectual property rights
- Potential product liability
- Compliance with the relevant rules and regulations concerning system integration businesses in the PRC

(ii) Risks relating to the industry

- Rapid changes in technology and market demand
- Turnover of technical staff
- Trademark, patent and copyright infringement

SUMMARY

(iii) Risks relating to the PRC

- Political and economic factors
- Foreign exchange
- Legal and other regulatory considerations
- WTO
- Taxation
- Impact of the attack on the World Trade Centre

(iv) Issues to consider in relation to certain statements made in this prospectus

- Accuracy of statistics
- Forward-looking statements contained in this prospectus may not materialise

PLACING STATISTICS (Based on the Placing Price of HK\$0.77 and HK\$0.95 per H Share, being the lowest and highest points of the indicative range)

Placing Price	HK\$0.77	HK\$0.95
Market capitalisation of H Shares (<i>Note 1</i>)	HK\$75,075,000	HK\$92,625,000
Adjusted net tangible asset value per Share (<i>Note 2</i>)	HK\$0.28	HK\$0.35

Notes:

- (1) The market capitalisation of H Shares is calculated on the basis of the highest and lowest points of the indicative range of the Placing Price and the 97,500,000 H Shares expected to be issued immediately after the completion of the Placing, but takes no account of any H Shares to be issued pursuant to the Over-allotment Option and any H Shares which may fall to be issued upon the exercise of options granted under the Share Option Scheme.
- (2) Adjusted net tangible asset value per Share is arrived at after making the adjustments referred to in the paragraph headed “Adjusted net tangible asset value” under the section headed “Financial information” to this prospectus and is based on a total of 324,952,000 Shares expected to be in issue immediately after the completion of the Placing, but takes no account of any H Shares to be issued pursuant to the Over-allotment Option and any H Shares which may fall to be issued on the exercise of options granted under the Share Option Scheme.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe the net proceeds from the Placing shall provide the Group with sufficient financial resources for the successful execution of its business objectives, such as accelerating the R&D of its telecommunications solutions, expanding its R&D team and building a national sales and distribution network. The net proceeds derived from the Placing shall strengthen the overall market position of the Group and assist the Group in its future business development and marketing.

SUMMARY

Based on the Placing Price of HK\$0.95 per H Share (being the highest point of the indicative range of the Placing Price between HK\$0.77 and HK\$0.95 per H Share), the net proceeds from the Placing, after deducting the placing commission and estimated expenses payable by the Company in relation to the Placing, are estimated to amount to approximately HK\$80 million on the basis that the Over-allotment Option is not exercised. The Directors currently intend to apply such net proceeds as follows:

- approximately HK\$30 million will be used for product enhancement and development, of which approximately HK\$15 million will be used as operating expenditure of the R&D department, such as salary for R&D staff, travelling, accommodation and training to cope with the increase in forecast business volume, approximately HK\$5 million will be used for purchasing computer hardware, software and testing equipment, approximately HK\$5 million will be used for recruiting high caliber R&D staff with technical expertise and approximately HK\$5 million will be used for funding the Research Center;
- approximately HK\$18 million will be used as sales and marketing expenses, of which approximately HK\$10 million will be used in conducting market research, attending exhibitions and launching product promotion campaigns, approximately HK\$5 million will be used in multimedia advertising and approximately HK\$3 million will be used in training programs for sales staff;
- approximately HK\$27 million will be used for strategic investments and business collaborations, of which approximately HK\$15 million will be used to establish strategic alliances with wireless communication system providers to develop more sophisticated wireless value-added systems and approximately HK\$12 million will be used to form business collaborations to conduct joint promotional activities and to strengthen the Group's brand through the establishment of branch offices, sales points and an after-sale service center; and
- the balance of approximately HK\$5 million will be used as additional working capital.

In any circumstances that the Placing Price is less than HK\$0.95 per H Share, the application of the net proceeds will be allocated in the same percentage breakdown as shown above.

To the extent that the net proceeds from the Placing are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed in short-term deposits. Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$13 million which, together with the net proceeds from the Placing after deducting related expenses, will amount to approximately HK\$93 million. Assuming the Over-allotment Option is exercised in full, the Directors intend to apply the additional proceeds as additional working capital.

In the event that any part of the business plans of the Group does not materialise or proceed as planned, the Directors will evaluate the situation and may reallocate the intended funding to other business plans and/or to new projects of the Group and/or to hold such funding as short-term deposits so long as the Directors consider it to be in the best interests of the Group and its shareholders taken as a whole. The Group will make an appropriate announcement if this occurs.

For details of the various plans stated above, including the expected timing thereof, please refer to the section headed "Statement of business objectives" in this prospectus.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following words and expressions have the following meanings:

“Articles of Association”	the articles of association of the Company, adopted on 20th April, 2002 and as amended from time to time
“Associates”	has the meaning as ascribed thereof under the GEM Listing Rules
“Beijing Guoheng”	Beijing Guoheng High Technology Holding Co., Ltd. (北京國恆科技集團股份有限公司), a joint stock limited company incorporated in the PRC on 13th September, 1994 and is involved in the investment of high technology companies. Beijing Guoheng is a Promoter, Initial Management Shareholder and Substantial Shareholder of the Company with a 15.00% and 10.50% shareholding interest in the Company immediately before and after the Placing, respectively
“Board”	the board of Directors
“business day”	any day (other than Saturday or Sunday) on which banks in Hong Kong are generally open for business
“CA” or “Computer Associates”	Computer Associates International, Inc., its subsidiaries or associates. Computer Associates develops and supports software and provides solutions for businesses
“CAGR”	compound annual growth rate
“CCASS”	The Central Clearing and Settlement System established and operated by HKSCC
“CCASS Participant”	a person or persons admitted for the time being by HKSCC as a participant of CCASS
“CCID”	The Center of Computer of Microelectronic Industry Development and Research. A wholly-owned subsidiary of Research Institute of China Electronic Information Industry Development (中國電子訊息產業發展研究院) for providing information services to information and technology company in the PRC
“China Mobile”	China Mobile Communications Corporation, its subsidiaries or associates. A telecommunications service provider in the PRC
“China Telecom”	China Telecommunications Corporation, its subsidiaries or associates. A telecommunications service provider in the PRC

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“China Unicom”	China United Telecommunications Corporation, its subsidiaries or associates. A telecommunications service provider in the PRC
“CIETAC”	China International Economic and Trade Arbitration Commission. An international commercial arbitration institution in the PRC established in 1956 to independently and impartially resolve international and domestic commercial disputes
“CNNIC”	China Internet Network Information Center, an institution established by the Chinese Academy of Sciences in June 1997 and is now under the administration of MII, responsible for the registration of all “.cn” domain names other than “edu.cn” domain names. CNNIC’s official web-site is www.cnnic.com.cn
“Company”	Zheda Lande Scitech Limited (浙江浙大網新蘭德科技股份有限公司), a joint stock limited company incorporated in the PRC on 20th September, 2001
“Company Law”	The Company Law of the PRC enacted by the Standing Committee of the Eighth National People’s Congress on 29th December, 1993 and which became effective on 1st July, 1994, as amended, supplemented or otherwise modified from time to time
“Companies Ordinance”	The Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Connected Person”	has the same meaning as ascribed under the GEM Listing Rules
“CPY” or “Sponsor”	Core Pacific - Yamaichi Capital Limited, an investment adviser and a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and a GEM approved sponsor
“CPY International” or “Lead Manager”	Core Pacific - Yamaichi International (H.K.) Limited
“CSRC”	China Securities Regulatory Commission
“CSRC GEM Guidelines”	Guidelines for the Approval and Supervision of Domestic Enterprises in connection with their Application for Listing on the Growth Enterprise Market of The Stock Exchange of Hong Kong promulgated by CSRC on 21st September, 1999
“Director(s)”	the director(s) of the Company

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“Domestic Shares”	domestic shares of nominal value RMB1.00 each (prior to the subdivision of Promoters’ Shares from par value of RMB1 each to RMB0.1 each as described in Appendix VI “Statutory and general information” to this prospectus) or RMB0.10 each (after the subdivision of Promoters’ Shares from par value of RMB1 each to RMB0.1 each as described in Appendix VI “Statutory and general information” to this prospectus) in the share capital of the Company which are subscribed for in Renminbi
“Forward Looking Period”	the period from the Latest Practicable Date to 31st December, 2004
“GEM”	The Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM
“GEM website”	<i>http://www.hkgem.com</i> , being the Internet website operated by the Stock Exchange
“Group”	the Company and its Subsidiaries
“H Shares”	overseas listed foreign invested shares of nominal value RMB0.10 each in the share capital of the Company, which are to be listed on the GEM and subscribed for and traded in HK dollars
“Hangzhou Land”	Hangzhou Land E & I Technology Limited (杭州蘭德電子信息技術有限公司), established in the PRC on 13th November, 1996 as a limited company, is the predecessor of the Company
“HK\$” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKIAC”	Hong Kong International Arbitration Center. HKIAC is an international commercial arbitration institution in Hong Kong established to independently and impartially resolve international and domestic commercial disputes
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong” or “HKSAR”	The Hong Kong Special Administrative Region of the People’s Republic of China, and before 1st July, 1997, Hong Kong

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“IBM”	International Business Machines Corporation, its subsidiaries or associates. Listed on the New York Stock Exchange, IBM develops and supports computer hardware and software
“IDC”	International Data Corporation, a market research, analysis and consulting firm in the information technology sector. Founded in 1964 in U.S.A., it provides annual briefings and in-depth reports on all aspects of the information technology sector. IDC’s official web-site is www.idcresearch.com
“Independent Third Party/Parties”	the independent third party or parties who is/are not connected with any of the Directors, Supervisors, Chief Executive, Substantial Shareholders, Initial Management Shareholders and Promoters of the Company or any of its/their Associates
“Initial Management Shareholders”	Beijing Guoheng, Zhejiang Innovation, Zhejiang Qware, Chen Ping (陳平), Bao Shu-xin (鮑曙新) and Chen Chun (陳純) being the Directors of the Company, Wang Lei-bo (王雷波), Wang Jin-cheng (王金成), Liu Qiao-ping (劉巧萍), Huo Zhong-hui (霍忠會) and Jin Lian-fu (金連甫) being the senior management of the Company and Chen Guo-cai (陳國才), Wu Zhong-hao (吳忠豪) and Shi Chun-hua (施春華). For further details, please refer to the section headed “Substantial Shareholders and Initial Management Shareholders” to this prospectus
“Latest Practicable Date” or “LPD”	15th April, 2002, being the latest practicable date for ascertaining certain information in this prospectus prior to its publication
“Listing Date”	the date on which the H Shares commence trading on GEM
“Management Shareholder”	has the meaning ascribed thereto under the GEM Listing Rules
“Mandatory Provisions”	the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas promulgated by the Securities Commission and the State Restructuring Commission on 27th August, 1994, as amended, supplemented or modified from time to time
“Microsoft”	Microsoft Corporation, its subsidiaries or associates
“MII”	The PRC Ministry of Information Industry (中國信息產業部)
“MPT”	Ministry of Posts and Telecommunications of the PRC (中國郵電部)
“Oracle”	Oracle Corporation, its subsidiaries or associates

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“Over-allotment Option”	the option granted by the Company to the Underwriters and exercisable solely by CPY International in its absolute discretion (on behalf of the Underwriters) pursuant to which the Company may be required to issue up to an additional 14,625,000 H shares, representing 15% of the Placing Shares at the Placing Price, to cover over-allotments in the Placing
“Placing”	the conditional placing of the Placing Shares at the Placing Price with certain investors as further described in the section headed “Structure and conditions of the Placing” to this prospectus
“Placing Price”	the price of not more than HK\$0.95 per H Share and not less than HK\$0.77 per H Share to be determined at the Price Determination Time pursuant to the Placing
“Placing Shares”	the 97,500,000 H Shares initially being offered for subscription under the Placing subject to the exercise of the Over-allotment Option as described in the section headed “Information about this Prospectus and the Placing” to this prospectus
“PRC” or “China”	the People’s Republic of China
“Price Determination Agreement”	the agreement to be entered into between the Company and CPY International (on behalf of the Underwriters), before the Price Determination Time to record the Placing Price, or a postponement of the Price Determination Time as mutually agreed between the Company and CPY International (on behalf of the Underwriters)
“Price Determination Time”	at or before 12:00 noon on 25th April, 2002, by which time the Placing Price has been fixed
“Promoters”	Chen Ping (陳平), Zhejiang Qware, Beijing Guoheng, Zhejiang Innovation, Chen Guo-cai (陳國才), Wu Zhong-hao (吳忠豪), Shi Chun-hua (施春華), Bao Shu-xin (鮑曙新), Wang Jin-cheng (王金成), Wang Lei-bo (王雷波), Liu Qiao-ping (劉巧萍), Chen Chun (陳純), Huo Zhong-hui (霍忠會), and Jin Lian-fu (金連甫)
“Qware Science”	Zhejiang University Qware Science Co. Ltd. (浙江大學快威科技有限公司), a limited company incorporated in the PRC on 10th June, 1998, has a major equity holder namely Zheda Science & Technology Co. Ltd. (浙江浙大網新科技股份有限公司) (which is an A-share listed company in the PRC) holding 95% equity interest of Qware Science. The remaining 5% equity interest is held by Jiang Yi (蔣憶), who is an Independent Third Party

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“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange (中國國家外匯管理局), the PRC governmental authority responsible for matters relating to foreign exchange administration (formerly known as the State Administration of Exchange Control)
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Securities Commission”	the former Securities Commission of the State Council
“Securities Law”	the Securities Law of the PRC enacted by the Standing Committee of the National People’s Congress on 29th December, 1998 and which became effective on 1st July, 1999, as amended, supplemented or otherwise modified from time to time
“Securities Ordinance”	The Securities Ordinance (chapter 333 of the Laws of Hong Kong)
“Shares”	Domestic Shares and H Shares
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 15th April, 2002 and subsequently amended on 20th April, 2002, the principal terms and conditions of which are summarised in the paragraph headed “Summary of Terms of the Share Option Scheme” in Appendix VI to this prospectus
“Share Repurchase Code”	the Code on Share Repurchases issued by the Hong Kong Securities and Futures Commission, as amended, supplemented or otherwise modified from time to time
“Shenzhen Huawei”	Shenzhen Huawei Technology Company Limited (深圳市華為技術有限公司). Established in 1988, Shenzhen Huawei, an Independent Third Party, is a private high-tech enterprise fully owned by its employees. Shenzhen Huawei specializes in R&D, production and marketing of telecommunications equipment, providing customized network solutions for telecom operators in fixed, mobile and data communications networks
“Special Regulations”	The PRC Special Regulations on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies issued by the State Council of the PRC on 4th August, 1994, as amended, supplemented or otherwise modified from time to time

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“State Council”	The State Council of the PRC (中國國務院), the highest government body in the PRC in charge of the implementation of State policies, which is headed by a premier and comprises of a cabinet and various ministries
“Sponsor Agreement”	a sponsor agreement dated 24th April, 2002 entered into between the Company and CPY under which CPY agreed to act as the Company’s continuing sponsor for the period from the Listing Date until 31st December, 2004 for a fee
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subsidiaries”	has the meaning as ascribed thereto under the GEM Listing Rules
“Substantial Shareholders”	Chen Ping (陳平), Zhejiang Qware, Beijing Guoheng and Zhejiang Innovation
“Takeovers Code”	the Code on Takeovers and Mergers issued by the Hong Kong Securities and Futures Commission, as amended, supplemented or otherwise modified from time to time
“Underwriters”	CPY International, First Shanghai Securities Limited, CAF Securities Company Limited, CM-CCS Securities Limited, MasterLink Securities (H.K.) Corp. Ltd, Shun Loong Securities Co., Ltd., Kingsway SW Securities Ltd., Tai Fook Securities Company Limited and YF Securities Company Limited
“Underwriting Agreement”	an underwriting agreement dated 24th April, 2002 entered into between, inter alia, the Company and CPY International (for and on behalf of the Underwriters) relating to the Placing, details of which are set out in the section headed “Underwriting” in this prospectus
“U.S.A.”	the United States of America
“US\$” or “US dollars”	United States dollars, the lawful currency of the US
“Zhejiang Innovation”	Zhejiang University Innovation Information Holdings Company Limited (浙江浙大網新信息控股有限公司). Established in the PRC in June 2001, Zhejiang Innovation is involved in the investment and management of high technology companies. Zhejiang Innovation is a Promoter, Initial Management Shareholder and Substantial Shareholder of the Company with a 15.00% and 10.50% shareholding interest in the Company immediately before and after the Placing, respectively

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“Zhejiang Qware”

Zhejiang Qware Information Technology Investment & Consulting Company Limited (浙江快威信息技術投資諮詢有限公司). Established in the PRC in May 2001, Zhejiang Qware is involved in the investment, management and consulting of high technology companies. Zhejiang Qware is a Promoter, Initial Management Shareholder and Substantial Shareholder of the Company with a 15.00% and 10.50% shareholding interest in the Company immediately before and after the Placing, respectively

“Zhejiang University”

Zhejiang University (浙江大學). Established in the PRC in 1897 as Qiushi Academy. In 1998, a new Zhejiang University was established on the basis of the merger of Zhejiang University, Hangzhou University, Zhejiang Agricultural University and Zhejiang Medical University. Zhejiang University currently has a student population of over 41,000, including approximately 30,000 undergraduates, approximately 8,000 postgraduates working for master’s degrees and approximately 3,200 Ph.D. candidates. Zhejiang University is an indirect shareholder of Zhejiang Innovation and the Company. For details on the shareholding structure of Zhejiang Innovation and the Company please refer to “General overview of the Group” as set out in this prospectus

GLOSSARY OF TECHNICAL TERMS

This glossary contains an explanation of terms used in this prospectus. Some of these may not correspond to standard industry definitions.

“ACD”	Acronym for Automatic Call Distributor. A computerized phone system that routes incoming telephone calls to the next available operator or agent. ACDs are the electronic heart of call centers, which are widely used in telephone sales and service departments of most business organizations. The ACD responds to the caller with a voice menu and connects the call to an appropriate individual
“CMM”	Acronym for Capability Maturity Model, a system developed by Carnegie Mellon University in the U.S.A. for measuring a software developer’s process and capability. CMM level 1 is the “initial” stage, at which the software development process is ad hoc and few processes are defined. CMM level 2 is the “repeatable” stage, at which basic project processes are established to track costs, schedule, and functionality. CMM level 3 is the “defined” stage, at which management engineering activities are documented, standardized, and integrated into a standard development process. CMM level 4 is the “managed” stage, at which detailed measure of the software process and product quality are collected. CMM level 5 is the “optimizing” stage, at which continuous process improvement is enabled by quantitative feedback from the process and from piloting innovative ideas and technologies
“CRM”	Acronym for Customer Relationship Management
“CTI”	Acronym for Computer Telephone Integration. A system that combines data with voice systems in order to enhance telephone services. An inbound example is the automatic number identification (“ANI”) which allows a caller’s records to be retrieved from the database while the call is routed to the appropriate party. Automatic telephone dialing from an address list is an outbound example
“e-mail”	Electronic mail
“FLEX”	A paging encoding technology which has an encoding rate of up to 6,400 bits per second
“HTML”	Hypertext Markup Language, a coding language used to make hypertext documents for use on the web. HTML resembles an old-fashioned typesetting code, where a block of text is surrounded by codes that indicate how it should appear. HTML allows text to be “linked” to another file on the Internet

GLOSSARY OF TECHNICAL TERMS

“HTTP”	Acronym for Hypertext Transfer Protocol, the client/server protocol used to access information on the World Wide Web
“ICP”	Acronym for Internet Content Provider
“Internet”	A global network of interconnected, separately administrated public and private computer networks
“IP”	Acronym for Internet Protocol
“ISP”	Acronym for Internet Service Provider
“IT”	Acronym for Information Technology
“IVR”	Acronym for Interactive Voice Response. An automated telephone answering system that responds with a voice menu and allows the user to make choices and enter information via the keypad. IVR systems are widely used in call centers as well as a replacement for human switchboard operators. The system may also integrate database access and fax response
“OA”	Acronym for Office Automation
“PBX”	Acronym for Private Branch Exchange. An in-house telephone switching system that interconnects telephone extensions to each other, as well as to the outside telephone network. It may include functions such as least cost routing for outside calls, call forwarding, conference calling and call accounting
“PDA”	Acronym for Personal Digital Assistant, a pocket-sized, special purpose personal computer that links a conventional keyboard
“platform”	A computer environment which allows the development and execution of computer applications
“pop3”	Newer version of Post Office Protocol, a protocol used to retrieve e-mail from a mail server, and most e-mail applications use the POP protocol
“R&D”	research and development
“software”	A system, utility or application program expressed in computer readable language

GLOSSARY OF TECHNICAL TERMS

“SMS”	Acronym for Short Messaging Service. A text message service that enables short messages of generally no more than 140-160 characters in length to be sent and transmitted from a cellphone. SMS was introduced in the GSM system and later supported by all other digital-based mobile communications systems. Unlike paging, short messages are stored and forwarded in SMS centers. SMS messages travel to the cellphone over the system’s control channel, which is separate and apart from the voice channel
“SMTP”	Acronym for Simple Mail Transfer Protocol, a TCP/IP protocol for sending messages from one computer to another on a network. This protocol is used on the Internet to route e-mail
“TCP/IP”	Acronym for Transmission Control Protocol/Internet Protocol, a protocol developed by the US Department of Defense for communications between computers
“telecom”	telecommunications
“WAP”	Acronym for wireless application protocol, an open, global specification that allows Internet access and other services to be provided via wireless communication devices
“Web-site”	A virtual location for a collection of web pages on the WWW
“web/WWW”	A world wide network of services that support the communications of data over the Internet

RISK FACTORS

An investment in the H Shares involves a high degree of risk and is speculative. Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems immaterial could also harm the business, financial condition and operating results of the Company.

This prospectus contains certain forward looking statements relating to the Company's plans, objectives, expectations and intentions. These cautionary statements in this prospectus should be read as applicable to all forward looking statements herein. The Company's future financial results or operations could differ materially from those discussed in this prospectus. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this prospectus.

Prior to making an investment decision in the Placing Shares, prospective investors should carefully consider all of the information contained in this prospectus and, in particular should evaluate the risks set out below:

RISKS RELATING TO THE GROUP

Reliance on support from Zhejiang University

The technological development of the business operated by the Group relies in part on the support of Zhejiang University. Zhejiang University provides technical staff and support to the Group through the Research Center, an institution jointly established by Zhejiang University and the Company. Loss of technological support from Zhejiang University could result in a material adverse impact on the Group's R&D capability and hence its product competitiveness in the future. Investors should be aware that in the event of any early termination of the underlying agreement between Zhejiang University and the Group dated 24th September, 2001 or any change in the relationship between Zhejiang University and the Group, the Group's competitiveness may be adversely affected.

Reliance on key personnel

The success of the Group, to a large extent, depends on the continuous service of its senior management and highly skilled and experienced IT professionals. The cessation of the involvement of any of these key executives in the management and operations of the Group or interruption of their full-time services to the Group may have a material and adverse impact on the Group. Although the Company has entered into fixed term service contracts with all of the executive Directors, there is no assurance that the Group will be able to retain the service of such key executives in the future.

The Directors believe that the Group's future success, to a large extent, depends on its ability to attract, retain and motivate highly skilled and experienced IT professionals. In addition, the Group's continued expansion will require an increase in the number of technical staff. However, competition for these highly skilled and experienced IT professionals is intense and there can be no assurance that the Group will be able to retain or attract IT professionals of the right calibre in the future.

Sustainability of profit

A majority of the Group's total turnover is primarily generated on a project-by-project basis. As the Group's revenue may vary over time, the future growth of the Group's profits depends on its ability to secure new contracts and the scope, duration, and profitability of those contracts. There is no assurance that the revenue and/or profits achieved during a particular period can be sustained in any subsequent periods. There is also no assurance that the level of revenue derived from a particular project or client during a particular period will recur in any subsequent periods.

Reliance on major customers

A significant portion of the Group's revenue has been and may continue to be, derived from a limited number of customers as there are only a few telecommunication providers in the PRC. For each of the three years ended 31st December, 2001, the Group's sales to its largest customer, China Unicom, accounted for approximately 43.8%, 75.1% and 49.7% of the Group's turnover respectively. For each of the three years ended 31st December, 2001, sales to the Group's five largest customers together accounted for approximately 92.2%, 96.2% and 83.6% of the Group's turnover respectively. In the event that the Group fails to secure new contracts from its existing customers and is not able to obtain new customers, the Group's business and financial position may be adversely affected.

Continuity of trading business

Since May 2001, the Group has been selling networking hardware products, such as modems, to telecommunications operators through third party sub-distributors. For the year ended 31st December, 2001, the trading of hardware generated a turnover of approximately RMB9.2 million, which represented approximately 14.3% of the total turnover of the Group for that year, and contributed approximately RMB1.1 million in gross profit, which represented approximately 6.1% of the profit from operations for that year. Sales are initiated by the sub-distributors who act as sourcing agents for a number of telecommunication operators. Pursuant to the needs of the sub-distributors, the Group sources the respective hardware products from its suppliers, usually at competitive prices due to the Group's good relationship with the suppliers. The end-users include existing and potential customers. The Directors believe that a win-win situation for both the Company and its customers is achieved through this hardware trading activity. The Group is able to provide value-added services to existing customers, while making use of the sub-distributors' business networks to expand the Group's business at low transaction costs at the same time. On the other hand, the Group's customers can purchase hardware equipment at lower costs. As such, the Directors consider the hardware trading business as part of its customer relation and business promotion plans and deem such trading activities as part of the provision of telecommunications solutions, which is the Group's focus line of business.

The trading business is incidental to the development of the Group's telecommunications business and is carried out with a view to promoting the Group's business to existing and potential customers. The Directors never intentionally or actively developed the hardware trading business as one of the core businesses of the Group. The Group does not intend to use any of its proceeds raised from the Listing to expand the hardware trading function or to establish any sales and marketing channel for the hardware trading business. However, while the Group will not reject any orders placed by the sub-distributors or cease the hardware trading business, there can be no assurance that the volume of the trading business will be maintained at a similar level as that for the year ended 31st December, 2001.

RISK FACTORS

Uncertainty in future expansion

The Group plans to adopt aggressive strategies to expand its operations throughout the PRC and to develop brand awareness of its own software products and services. Such strategies may involve acquisitions, aggressive marketing and advertising campaigns, and increasing investments in R&D. There can be no assurance that such expansion plans will be successful. The Group's operations and financial performance may be adversely affected if the Group is unable to integrate any operations that it acquires or if the management is unable to maintain, identify and exploit existing and potential strategic relationships and market opportunities.

In addition, the Group's expansion plans may place a significant strain on its management, operational and financial resources. There can be no assurance that the management will be able to cope with such strain on the Group's resources and manage the future growth of the Group successfully. Should the Group's resources be inadequate to support its future growth, the Group's future business and operations may be adversely affected.

Uncertainty in dividend distribution policy

For the three financial years ended 31st December, 2001, the Group has made one dividend distribution to its shareholders in March 2001. It is the intention of the management to retain 100 per cent. of the Group's earnings to fund R&D expansion and operations in the near future. Consequently, the estimated timing for future dividend distribution cannot be ascertained presently. Potential investors should be aware of the Company's dividend policy when making a decision as to whether or not to invest in the Group.

Accumulation of accounts receivable

The Group experienced a significant increase in accounts receivable. As at 31st December, 1999, 2000 and 2001, the Group's accounts receivable, after netting off provisions for doubtful accounts, amounted to approximately RMB490,000, RMB2,253,000 and RMB32,042,000 respectively, representing approximately 3.3%, 10.0% and 49.4% of the Group's total current assets as at the respective balance sheet dates. For details on the aging analysis of accounts receivable, please refer to the "Accountants' Report" set out in Appendix I to this prospectus. The subsequent settlement of accounts receivable up to 28th February, 2002 amounted to approximately RMB10,156,000, which related mostly to debts aged within three months. The provisions for doubtful accounts made by the Group during each of the three years ended 31st December, 2001 amounted to approximately RMB203,000, nil and approximately RMB521,000 respectively.

The contract amount of telecommunications solution projects are billed on a progress basis. Credit terms are granted to customers based on certain criteria such as payment history, background and financial strength of the customers and require authorization by one of the executive Directors. Under normal circumstances, the credit period granted by the Group to its customers is around 7 days to 20 days. Since 2001, the Group has expanded its telecommunications solutions to include telecom operation solutions. Due to the fact that the telecom operation solutions is a new business line, customers normally demand a longer payback period to ensure satisfactory operation of the system.

RISK FACTORS

Therefore, the collection period for receivables from the customers of telecom operation solutions is comparatively longer than that from customers of data communication solutions. In addition, a significant portion of accounts receivable are owed by sizeable customers with whom the Group has little bargaining power over payment terms. As at 31st December, 2001, the aggregate net amount of accounts receivable due from China Unicom amounted to approximately RMB16.9 million, representing approximately 52.7% of the net accounts receivable as at that date. The Group's ability to fully collect the amounts outstanding under these accounts depends on the creditworthiness of the Group's customers. In the event any portion of such accounts receivable becomes bad debts, the Group's operations and financial condition may be adversely affected.

Reliance on system software and development tools

The Group utilises systems software and development tools from other software vendors such as IBM, Microsoft and Oracle to develop its software applications. Should the software of these software vendors become obsolete or if the software vendors fail to correct defects in its systems software or development tools, the Group's software applications could, in turn, be adversely affected. In addition, should such software vendors cease to provide the relevant systems software or development tools to the Group, the Group's software development may be hindered and the Group's business may be adversely affected.

Competition

The Internet technology and software market in the PRC is highly fragmented and competitive. The Directors are aware of the fact that its competitors may deliver products and services that are similar to those of the Group at a lower price. Furthermore, the Directors also envisage that quotations for projects may be further driven down due to competition. Income generated from projects is one of the major sources of the Group's income. Although the Group has not yet encountered any cut throat competition in tendering for projects in the past that has significantly affected its survival in the Internet technology and software market, there is no guarantee that the Group is able to tender for future projects at the existing profit margin and sustain its market share. Such competitive environment may adversely affect the Group's profitability.

Permits, certificates and business licences

In order to carry on its business as is presently conducted, the Company has obtained certain permits and business licences from various governmental authorities, including but not limited to Software Products Registration Certificates for all of its software products and a Qualification Certificate of Computer Information System Integration. The Company is required to apply for renewal of all such permits and business licences upon their expiry, if any. The Company will be subject to re-assessment by the issuing authorities in accordance with the prevailing legal and regulatory requirements for the purposes of such renewal. It should be noted that the requirements under these permits and business licences may change from time to time, which may give rise to compliance problems. In addition, it may be costly for the Company to comply with all changes or additions to the requirements relating to the renewal of the relevant permits and business licences. In the event that renewal of any of these permits or business licences is not granted, the relevant portions of the Company's business would have to cease operating.

Research and development risks

Two major emphases of the Company's future strategy are the improvement of its existing products and the development of new application software. Before commencing any product development, the Company carefully considers such factors as market conditions, technology requirements, research cost, the reputation of its partners (if any), the period of time required for development, and the probability of success. However, because of many uncertain factors such as rapid changes in market demands, unexpected delays in development and unanticipated increases in required investment, there is no assurance that the Company's research projects, whether those initiated or acquired by the Company, can be completed within the timeframe anticipated. In addition, there can be no certainty that the resulting new product can obtain the relevant production approval issued by the relevant government authority that the research results can be converted into production, or that the products will be well-received by clients.

Intellectual property rights

Piracy of software applications developed by the Group and infringement of its intellectual property rights may adversely affect the Group's business and hence its financial performance. To protect the intellectual property rights of the Group's software products, the Group has registered and applied for registration of its trade marks and service marks in the markets where it has a business presence. (See the paragraph headed "Intellectual property rights of the Group" in Appendix VI to this prospectus). In addition, it is the Group's policy to require all its employees to abide by confidentiality agreements stipulating that all work products developed in the course of their employment are the property of the Group and may not be disclosed to third parties. Furthermore, the Group's software products are typically segmented into modules operated by separate operators and security measures such as passwords and access codes are introduced to prevent software piracy.

Despite the above preventive measures taken by the Group, there can be no assurance that piracy of its technology or infringement of its intellectual property rights can be kept under control at all times. In addition, the Group may incur significant expenses and substantial amounts of time and effort to enforce its intellectual property rights in the future. Such diversion of the scarce resources of the Group may adversely affect its existing business and future expansion plans.

Potential product liability

If software products developed and distributed by the Group contain defects or errors which adversely affect any of the Company's clients' business operations or the performance of such software products, the Group may incur additional costs in correcting the defects or defending any legal proceedings and claims brought by its clients against the Group for damages. This may affect the Group's relationship with such clients and result in negative publicity which may adversely affect the reputation of the Group. Although no legal claims were made by any of its customers relating to the products and services provided by the Group during the three years ended 31st December, 2001, there can be no assurance that there will not be any product liability claims against the Group in the future. The Group does not maintain any insurance against product liability and seeks to limit its liability by incorporating limited warranty provisions in the contracts with its clients. The Group will nevertheless still be liable for its negligence.

RISK FACTORS

Compliance with the relevant rules and regulations concerning system integration businesses in the PRC

Pursuant to the Computer Information System Integration Quality Management Rules (the “S.I. Rules”) promulgated on 12th December, 1999 by the Ministry of Information Industry which took effect on 1st January, 2000, any business unit which conducts the business of computer information system integration must obtain a Qualification Certificate of Computer Information System Integration (the “Certificate”). However, the S.I. Rules were not yet in effect at the time when the Company commenced its system integration businesses, which accounted for approximately 85.7% of total turnover for the year ended 31st December, 2001. Moreover, the S.I. Rules do not prohibit a company from carrying on the computer information system integration business without a Certificate.

In order to be eligible to apply for the Certificate, the applicant must have conducted the business of computer information system integration for at least two years and completed at least three relevant projects. In December 2001, the Group was granted the Certificate. However, if there is any interpretation made by the MII in the future that a company is prohibited from conducting system integration businesses without a Certificate and the Company fails to secure a renewal of such Certificate, the Company may not be able to continue such computer information system integration business.

RISKS RELATING TO THE INDUSTRY

Rapid changes in technology and market demand

The markets in which the Group operates are characterised by rapidly changing technology, evolving industry standards, frequent new service and product introductions and enhancements and changing customer demands. The competition in the market is exacerbated by competitors offering telecommunications solutions and broadband Internet solutions with similar or more advanced technologies. Accordingly, the Group’s future success will depend on its ability to adapt to technological developments in a timely and cost-efficient manner through continued improvement of its existing products and services and the introduction of new products and services applying the latest technologies that improve performance, features and reliability. The failure of the Group to adapt to such changes may have a material adverse effect on the Group’s business, operating results and financial condition.

Turnover of technical staff

The IT solutions industry is a skill-intensive industry. The sales and marketing, technical support as well as the R&D function of the Company require staff with relevant computer knowledge. Accordingly, the success of the Company’s operations is reliant on the availability and continuity of technical expertise and support. Competition for employees with the relevant IT industry experience is intense and the Company may not be able to retain existing employees or identify or recruit new employees because of such keen competition. If the Company fails to recruit or retain the necessary personnel, the Company’s business may be materially and adversely affected.

RISK FACTORS

Trademark, patent and copyright infringement

The Company regards its copyrights, service marks, trademarks, patents and similar intellectual property as critical to its success. If the Company is unable to protect these rights in the PRC market in which it competes, this may have a material adverse effect on its performance and its operating results. Unauthorised users may infringe the Group's intellectual property and may compete against the Group in similar markets. The Company has registered its software products with the National Copyright Bureau (國家版權局) of the PRC. However, the Company cannot guarantee that the relevant law enforcement agencies will be able to prohibit, punish and prevent the occurrence of trademark, patent and copyright infringement of its software products in the PRC. Potential investors should also be aware that infringement of intellectual property rights by way of sales of counterfeit goods occurs in the PRC as well as in other countries. There will always be a market for counterfeit products given the price difference between counterfeit goods and the original version and total eradication of intellectual property infringement is very difficult in the PRC. The Company's profitability may be adversely affected if its intellectual properties are infringed.

RISKS RELATING TO THE PRC

Currently, all of the Company's assets and operations are located in the PRC and it derives all of its revenue from its operations in the PRC. Hence, the Company's financial condition and results of operations are, to a significant degree, subject to economic, political and legal developments in the PRC.

Political and economic factors

Before its adoption of reform and open policies beginning in 1978, the PRC was primarily a planned economy. Since that time, the PRC government has been reforming the PRC economic system, and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC government still owns a significant portion of the productive assets in the PRC, economic reform policies have emphasised autonomous enterprises and the utilisation of market mechanisms. The Directors currently expect that the PRC government will continue to intensify these reforms, further reduce governmental intervention with enterprises and rely more heavily on market mechanisms to allocate resources. Although the Directors believe that these reforms will have a positive effect on the Company's overall and long-term development, any changes to political, economic and social conditions, laws, regulations and policies in the PRC may have an adverse effect on the Company's current or future businesses or results of operations.

Foreign exchange

The PRC government imposes control over the convertibility of Renminbi into foreign currencies. With effect from 1st January, 1994, the PRC government implemented a unified floating exchange rate system based on market supply and demand. Under the new system, the People's Bank of China ("PBOC") publishes PBOC exchange rate based on the previous day's dealings in the interbank foreign exchange market. Foreign currency designated banks use the exchange rate published by the PBOC as a basis and decide a rate of their own, which is within the floating range specified by PBOC, to enter into foreign exchange sales and purchase transactions with customers. Although new regulations have provided for greater liquidity of Renminbi, the Renminbi is still not a freely convertible currency.

RISK FACTORS

Foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to limitations and require the prior approval of the SAFE. These limitations could affect the Company's ability to obtain foreign exchange through debt financing, or to obtain foreign exchange for capital expenditures or dividend payments to the holders of H Shares.

Under the existing foreign exchange regulations in the PRC, following the completion of the Placing the Company may undertake current account foreign exchange transactions, including the payment of dividends, without prior approval from the SAFE by producing relevant documents evidencing such transactions, provided that they are processed through PRC banks licensed to engage in foreign exchange transactions.

The value of the Renminbi may be influenced by factors such as changes in the PRC government's policies, the PRC's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of Renminbi to US dollars has generally been stable, and the Renminbi has appreciated slightly against the US dollar. However, there can be no assurance that the value of the Renminbi will continue to remain stable against the US dollar or any other foreign currency. As the Company does not currently sell its products outside the PRC, a devaluation of the Renminbi may not have a negative impact on the Company's overall operations. However, any devaluation of the Renminbi may adversely affect the value of, and dividends payable on, the H Shares in foreign currency terms since the Company receives its revenues and expresses its profit in Renminbi.

Legal and other regulatory considerations

Legal system

Although many laws and regulations governing economic matters have been promulgated and supplemented in the PRC since 1979, the PRC legal system is still not sufficiently mature when compared with the legal systems of other developed western countries. The interpretation of the PRC laws may be influenced by policy changes reflecting domestic political and social changes. In addition, it may also be difficult to enforce judgements in the PRC.

Many laws and regulations in the PRC are promulgated in broad principles and the central government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the promulgation of new laws or refinement and modification of existing laws may affect foreign investors. The general effect of legislation since 1982, when the national People's congress amended the constitution to authorise foreign investment, has been the significant enhancement of the protection afforded to foreign investment enterprises in the PRC. However, there can be no assurance that future changes in legislation or the interpretation thereof will not have an adverse effect upon the Company.

Shareholders' rights

As substantially all of the Company's business is conducted in the PRC, the Company's operations are governed principally by the laws of the PRC. As a PRC company offering and listing its shares outside the PRC, the Company is subject to the Special Regulations and to the Mandatory Provisions. The Mandatory Provisions contain certain provisions that are required to be included in

RISK FACTORS

the articles of association of PRC companies to be listed abroad and are intended to regulate the internal affairs of those companies. The Company Law and the Special Regulations, in general, and provisions for the protection of shareholders' rights and access to information, in particular, are less developed than those applicable to companies incorporated in Hong Kong, the United Kingdom, the United States and other developed countries or regions.

The Company Law is different in certain important aspects from company laws in Hong Kong, the United States and other common law countries or regions, particularly with regard to investor protection, including such areas as derivative actions by minority shareholders and other minority protections, restrictions on directors, financial disclosure, variations of class rights, procedures at general meetings and payments of dividends.

The limited nature of investor protection under the Company Law is compensated for, to a certain extent, by the introduction of the Mandatory Provisions and certain additional requirements that are imposed by the GEM Listing Rules with a view to reducing the scope of differences between Hong Kong company law and the Company Law. The Mandatory Provisions and those additional requirements must be included in the articles of association of all PRC companies applying for listing in Hong Kong. The Articles of Association incorporate the provisions required by the Mandatory Provisions and the GEM Listing Rules. Despite the incorporation of those provisions, there can be no assurance that shareholders of the Company will enjoy protections that they may be entitled to in other jurisdictions.

WTO

The PRC became an official member of the World Trade Organisation on 11th December, 2001. Its accession to the WTO should result in the PRC experiencing a greater level of competition in all of its markets and industries. The PRC government has, on various occasions in 1997 to 1999, reduced import tariffs on a wide range of products. The Directors believe that this process towards the general opening up of the PRC market is likely to continue and may result in further reduction or abolition of import tariffs on various products. Any further reduction in the amount of import tariff payable in respect of imported products similar to those produced by the Company may bring about increased market competition for the Company.

Taxation

Under current PRC tax laws, regulations and rulings, dividends paid by the Company to the shareholders who are foreign individuals not residing in the PRC or that are foreign enterprises with no permanent establishments in the PRC are not currently subject to PRC income tax by way of withholding or otherwise. If the PRC government changes the tax law or its application in the future, foreign owners of the Placing Shares of the Company may be required to pay withholding and capital gains taxes. In addition, gains realised by enterprises upon the sale or other disposition of the Placing Shares are not currently subject to PRC income tax by way of withholding or otherwise. There can be no assurances, however, that income taxes will not become applicable to such dividends or gains in the future. In such event, these foreign shareholders, including those without permanent establishments in the PRC could become subject to a withholding tax on dividends, which is currently imposed at the rate of 20%, or to an income tax on capital gains, which may be imposed upon individuals at the rate of 20%, unless reduced or eliminated by an applicable double taxation treaty.

RISK FACTORS

Impact of the attack on the World Trade Centre

The Directors consider that the business of the Group is subject to the general economic conditions of Hong Kong and the PRC. The attack on the World Trade Centre in the US, on 11th September, 2001 is generally expected to exert considerable direct and indirect influences on the global economy. It is also generally expected amongst economists and analysts that short-term development of the global economy may be slowed down as a result of the incident. If such economic slowdown takes place in the near future, the overall Hong Kong and the PRC economies may be adversely affected and may have an adverse impact on the performance and the profitability of the Group.

ISSUES TO CONSIDER IN RELATION TO CERTAIN STATEMENTS MADE IN THIS PROSPECTUS

Accuracy of statistics

Statistics referred to in this prospectus may not be accurate, complete or up-to-date. Certain statistics in this prospectus relating to the Internet or telecommunications industries, such as statistics relating to the number of Internet users and mobile subscribers in the PRC, as well as their projected growth, are derived from various unofficial publications, and in particular, those produced by MII and CNNIC. Such information has not been independently verified by the Company and may not be accurate, complete, up-to-date or prepared on a consistent basis. The Company makes no representations as to the correctness or accuracy of such statements and, accordingly, such information should not be unduly relied upon.

Forward-looking statements contained in this prospectus may not materialise

Included in this prospectus are various forward-looking statements which can be identified by the use of forward-looking terminology such as “may”, “will”, “expect”, “anticipate”, “estimate”, “continue”, “believe” or other similar words. These statements are forward-looking and reflect the current expectations of the Board. These statements are subject to a number of risks and uncertainties, including but not limited to, changes in the economic and political environments in the countries to which the Group offers its services and changes in technology and changes in the telecommunications market. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Group, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Group’s present and future business strategies and the environment in which the Group will operate in the future. In light of the inherent risks and uncertainties, potential investors should keep in mind that there can be no assurance that the forward-looking statements described in this prospectus will materialise.

WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES

For the purposes of the listing of the H Shares on GEM, the Company has sought a waiver from the GEM Listing Division in relation to certain requirements under the GEM Listing Rules. Details of such waiver are described below:

ESCROW ARRANGEMENTS

Under Rule 13.16(1) of the GEM Listing Rules, every initial management shareholder shall place in escrow, with an escrow agent and on such terms as are acceptable to the Stock Exchange, all its relevant securities for a period of (a) twelve months from the listing date or (b) where that shareholder's relevant securities represent no more than 1% of the issued share capital of the Company as at the listing date, six months from the listing date.

The Directors consider that Rule 13.16(1) of the GEM Listing Rules is not applicable to the Domestic Shares held by the Initial Management Shareholders (all of them being also the Promoters) since the Shares held by the Initial Management Shareholders are not represented by any form of physical scrip or title documents. This means that the Initial Management Shareholders may not be able to create any pledge or charge by deposit of the title documents of their respective Domestic Shares or any part thereof. This also means that the subject matter for custody to be held by the escrow agent required under Rule 13.16(1) of the GEM Listing Rules does not physically exist in any form available for custody purposes.

Under the relevant laws and regulations of the PRC, the Domestic Shares held by the Promoters (all of them being Initial Management Shareholders) are subject to the following legal restrictions:

1. Article 147 of the Company Law provides that promoters' shares of a joint stock limited liability company established under the PRC Company Law are not transferable within three years after the establishment of such company; and
2. Article 75 of the Law of Guarantee of the PRC provides that only shares which are transferable may form lawful security for the purposes of pledge or charge in the PRC.

As the Company was reorganised and then incorporated as a joint stock limited company on 20th September, 2001, the Domestic Shares held by the Promoters (all of them being Initial Management Shareholders) are subject to the restrictions imposed by the Company Law and Law of Guarantee of the PRC and are therefore not transferable for three years.

As the Shares held by the Promoters (all of them being Initial Management Shareholders) are not transferable, they cannot constitute lawful security for pledge or charge in the PRC. The Company has therefore applied for a waiver from strict compliance with Rule 13.16(1) of the GEM Listing Rules from the Stock Exchange, and the Stock Exchange has granted a waiver from strict compliance with Rule 13.16(1) in relation to the escrow arrangement requirement. However, in view of the increasing demand for amendment of the PRC Company Law to cater for changing circumstances and in the event that the PRC laws and regulations relating to the said Articles 147 and 75 are relaxed or removed, the Initial Management Shareholders would have to respectively comply with the escrow arrangement requirement under the GEM Listing Rules.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance and the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

The Placing Shares are offered solely on the basis of the information contained and the representations made in this prospectus. No person in connection with the Placing is authorised to give any information or to make any representations that are not contained in this prospectus; and any information or representations not contained herein must not be relied upon as having been authorised by the Company, CPY, any of the Underwriters, any of their respective directors, or any other persons involved in the Placing.

CONSENT OF THE CSRC

On 4th January, 2002, the CSRC gave its consent to the Company to issue H Shares and apply for the listing of the H Shares on the GEM. In granting such consent, the CSRC accepts no responsibility for the financial soundness of the Company or the accuracy of any of the statements made or opinions expressed in this prospectus.

THE PLACING

This prospectus is published in connection with the Placing for which CPY International is the lead manager and CPY as the Global Co-ordinator and Sponsor and which is fully underwritten by the Underwriters. Information relating to the underwriting arrangements is set out in the section headed "Underwriting" in this prospectus.

Details of the conditions of the Placing are set out under the section headed "Structure and conditions of the Placing" of this prospectus.

RESTRICTIONS ON SALE OF H SHARES

No action has been taken to permit the placing of the H Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

Japan

The Placing has not been and will not be registered under the Securities and Exchange Law of Japan (the “Securities and Exchange Law”). The H Shares which are being offered hereby may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to the applicable exemption from the registration requirements of the Securities and Exchange Law and in compliance with any other applicable requirements of Japanese Law.

Singapore

This prospectus has not been and will not be registered as a prospectus with the Registrar of Companies and Business in Singapore and the H Shares will be offered in Singapore pursuant to exemptions invoked under Division 5A of Part IV of the Companies Act (Chapter 50 of the “Singapore Companies Act”). Accordingly, this prospectus and any other offering document or materials in connection with the offer of the H Shares may not be issued, circulated or distributed in Singapore nor may an invitation or offer to subscribe for or purchase any H Shares be made, directly or indirectly, to the public or any member of the public in Singapore other than (a) pursuant to, and in accordance with the conditions of, exemptions invoked under Division 5A of Part IV of the Singapore Companies Act and to persons to whom the H Shares may be offered or sold under such exemption; or (b) otherwise pursuant to, and in accordance with the conditions of any other provision of the Singapore Companies Act.

The PRC

This prospectus does not constitute a public offer of the H Shares, whether by way of sale or subscription, in the PRC. The H Shares are not being offered and may not be offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC. According to the laws and regulatory requirements of the PRC, the H Shares may be offered or sold only to natural or legal persons in Taiwan, Hong Kong or Macau or any country other than the PRC by means of this prospectus or otherwise.

Taiwan

The Placing Shares have not been and will not be registered with the Securities and Futures Commission of Taiwan and are not being offered or sold and may not be offered or sold, directly or indirectly in Taiwan or to, or for the account of, any resident of Taiwan, except (i) pursuant to the requirements of the securities related laws and regulations in Taiwan and (ii) in compliance with any other applicable requirements of Taiwanese law.

Each person acquiring the Placing Shares will be required to, or be deemed by his acquisition of Placing Shares to confirm that, he is aware of the restrictions on offers of the Placing Shares described in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors are recommended to consult their professional advisers if they are in any doubt as to taxation implications of subscribing for, purchasing, holding and dealing in the Placing Shares. It is emphasised that none of the Company, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Placing accepts responsibility for any tax effects or liabilities of holders of Placing Shares resulting from the subscription, purchase, holding or disposal of the Placing Shares.

HONG KONG H SHARE REGISTER AND STAMP DUTY

All H Shares issued pursuant to the Placing will be registered on the Company's H Share register of members to be maintained in Hong Kong. The Company's duplicate H Share register of members will be maintained by the Company at its registered office. Dealings in the Placing Shares registered on the Hong Kong H Share register of members of the Company will be subject to Hong Kong stamp duty.

APPLICATION FOR LISTING ON THE GEM

Application has been made to the GEM Listing Committee of the Stock Exchange for listing of and permission to deal in the H Shares to be issued pursuant to the Placing (including any additional H Shares which may be issued pursuant to the exercise of the Over-allotment Option and Share Option Scheme) on the GEM. No part of the share capital of the Company is listed on or dealt with in any other stock exchange and no such listing or permission to deal is being or is proposed to be sought.

In compliance with Rules 25.08 and 25.09 of the GEM Listing Rules, the Company must ensure that all H Shares are held by the public (except as otherwise permitted by the Stock Exchange), the H Shares must normally constitute not less than 10 per cent. of the total existing issued share capital of the Company, and the aggregate amount of the H Shares and such other securities of the Company which are held by the public must constitute not less than 25 per cent. of the total issued share capital of the Company.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any placing of the Placing Shares will be void if permission for listing of, and dealing in, the H Shares on the GEM has not been applied for before the third day after the first issue of the prospectus or has been refused before the expiration of three weeks from the date of the closing of the subscription lists under the Placing or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

Only securities registered on the register of members of the Company kept in Hong Kong may be traded on the GEM unless the Stock Exchange otherwise agrees.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

COMMENCEMENT OF DEALINGS IN H SHARES

Dealings in H Shares on the GEM is expected to commence on 3rd May, 2002. H Shares will be traded in board lots of 5,000 each.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares to be issued as described in this prospectus on the GEM by the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

FULLY UNDERWRITTEN

The Placing is an offer by the Company of 97,500,000 H Shares which are being offered in Hong Kong for subscription at a price of not more than HK\$0.95 per H Share and not less than HK\$0.77 per H Share. The Placing Shares are being offered by way of placing to professional, institutional and other investors at the Placing Price. The Placing is subject to the conditions set out under the section headed “Structure and Conditions of the Placing” in this prospectus. Each person subscribing for the Placing Shares will be required to, or deemed by its subscription for the Placing Shares, to confirm that it is aware of the restrictions on offers of the Placing Shares described in this prospectus. This prospectus is published solely in connection with the Placing.

The Placing is sponsored by CPY and fully underwritten by the Underwriters. For further information about the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

The Company has instructed Hong Kong Registrars Limited, its Hong Kong share registrar, and Hong Kong Registrars Limited has agreed not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to the share registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

- (ii) agrees with the Company, each shareholder, Director, Supervisor, senior officers of the Company, and the Company acting for itself and for each Director, Supervisor, senior officers of the Company agrees with each shareholder to refer all differences and claims arising from the Articles of Association or any rights obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;
- (iii) agrees with the Company and each shareholder of the Company that H Shares in the Company are freely transferable by the holders thereof; and
- (iv) authorises the Company to enter into a contract on his behalf with each Director and officer of the Company whereby such Directors and officers undertake to observe and comply with their obligations to shareholders as stipulated in the Articles of Association.

STRUCTURE AND CONDITIONS OF THE PLACING

Details on the structure and conditions of the Placing, including details on the Over-allotment Option, are set out in the section headed “Structure and Conditions of the Placing” in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Name	Residential Address	Nationality
<i>Executive Directors</i>		
CHEN Ping (陳平)	Room 601, Block 2, No.19 Youdian Road, Shang Cheng Area, Hangzhou City, PRC	Chinese
ZHAO Jian (趙建)	Room 302, Unit 3, Block 38, Zone 1, Zhaohuixincun, Xiacheng Area, Hangzhou City, PRC	Chinese
XUE Shi Cheng (薛仕成)	Room 302, Unit 2, 18/F, No.5 Cangnanhutong, Dongcheng Area, Beijing City, PRC	Chinese
CHEN Chun (陳純)	Room 302, Block 20, Qiushi Village, Xihu Area, Hangzhou City, PRC	Chinese
BAO Shu Xin (鮑曙新)	Room 702, Unit 2, Block 13, Chaoming Garden, Hangzhou City, PRC	Chinese
<i>Independent Non-Executive Directors</i>		
CAI Xiao Fu (蔡小富)	1-303, No.61, Guanxiang, Zhong Shan Road North, Hangzhou City, PRC	Chinese
ZHANG De Xin (張德馨)	Room 304, Block 71, Qiushi Village, Xihu Area, Hangzhou City, PRC	Chinese
WANG Yue Hao (王越豪)	Room 601, Unit 1, Block 36, Daoxiangyuan, Xiacheng Area, Hangzhou City, PRC	Chinese
<i>Supervisors</i>		
WANG Wei Li (王偉力)	Room 202, Unit 2, Block 3, Baoshuiju, Jinchengjianan Apartment, Hangzhou City, Zhejiang Province, PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Name	Residential Address	Nationality
LI Yao Ting (李耀庭)	District 2, Cuiyuan, Hangzhou City, PRC	Chinese
FU Liang Yuan (傅良園)	Room 502, No.7, 55 Nanjianglu, Huangpu Area, Shanghai, PRC	Chinese
<i>Independent Supervisors</i>		
GU Yu Lin (顧玉林)	Room 702, Unit 4, Block 9, Jialuxiyuan, Hangzhou City, PRC	Chinese
FENG Pei Xian (豐培先)	2 - 104, Block 2, Hangci, 38 Wenyi Road, Hangzhou City, PRC	Chinese
<i>Senior Management</i>		
JIN Lian Fu (金連甫)	Room 507, Block 58, Qiushi Village, Xida Area, Xihu Area, Hangzhou City, PRC	Chinese
WANG Lei Bo (王雷波)	Room 202, Unit 1, Block 8, Jincheng Garden, Fuhua Road, Hangzhou City, PRC	Chinese
LIU Qiao Ping (劉巧萍)	Room 901, Unit 2, Block 8, Fangda Lu Zhou Garden, Zhaohui Road, Hangzhou City, PRC	Chinese
WANG Jin Ben (王金本)	Room 302, Block 3, Nandudejia Area East, Xihu Area, Hangzhou City, PRC	Chinese
WANG Jin Cheng (王金成)	5-2-503, Huayuan Apartment, Xihu Area, Hangzhou City, PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Name	Residential Address	Nationality
QIU Jin Song (邱勁松)	Room 301, Unit 4, Block 13, Kanglexincun, Xihu Area, Hangzhou City, PRC	Chinese
CHEN Kai (陳凱)	Room 301, Unit 2, Block 12, Qinya Garden, 111 Wenyuan Road, Hangzhou City, PRC	Chinese
HUO Zhong Hui (霍忠會)	Room 502, Unit 4, Block 16, Kanglexincun, Xihu Area, Hangzhou City, PRC	Chinese

DIRECTORS AND PARTIES INVOLVED IN THE PLACING

Global Coordinator and Sponsor	Core Pacific - Yamaichi Capital Limited 30th Floor Two Pacific Place 88 Queensway Hong Kong
Lead Manager	Core Pacific - Yamaichi International (H.K.) Limited 30th Floor Two Pacific Place 88 Queensway Hong Kong
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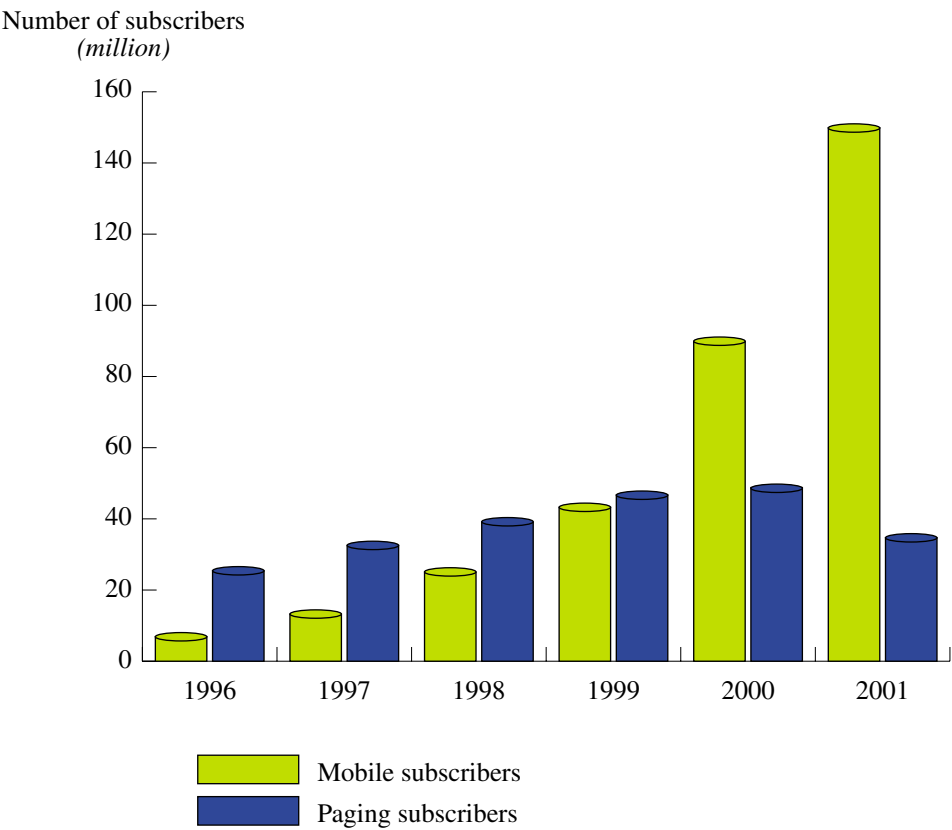
CORPORATE INFORMATION

Website	http://www.landpage.com.cn (<i>Note</i>)
Registered Office	4th Floor 108 Gu Cui Road Hangzhou City PRC
Place of Business in Hong Kong	Unit 1801-1807 Sun Hung Kai Center 30 Harbour Road Wanchai Hong Kong
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Compliance Officer	Mr. Xue Shi-cheng
Qualified Accountant	Mr. Fork Siu Lun Tommy <i>FCCA, AHKSA</i>
Audit Committee	Mr. Zhang De-xin Mr. Cai Xiao-fu
Authorised Representatives	Mr. Chen Ping Mr. Fork Siu Lun Tommy <i>FCCA, AHKSA</i>
Hong Kong Share Registrar and Transfer Office	Hong Kong Registrars Limited 2nd Floor, Vicwood Plaza 199 Des Voeux Road Central Hong Kong
Principal Banker	Shanghai Pudong Development Bank Hangzhou Branch 129 Yanan Road Hangzhou City Zhejiang PRC 310012

Note: Contents on this website do not form part of this prospectus.

TELECOMMUNICATIONS INDUSTRY IN THE PRC

As at 31st December, 2001, the number of mobile subscribers and paging subscribers in the PRC totaled approximately 149.9 million and approximately 34.7 million, respectively; representing CAGRs of approximately 85% and 6%, respectively during the six years period since 1996.



Source: MII, China Statistical Yearbook 2001

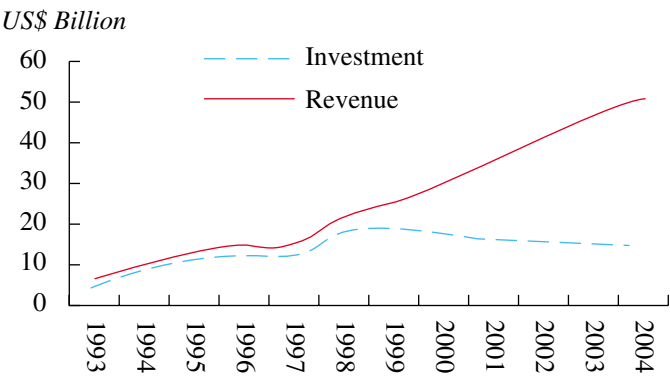
The following table shows the projected number of mobile subscribers in the PRC from 2002 to 2005:

	2002	2003	2004	2005
Mobile subscribers (in millions)	158.8	189.0	214.5	251.0

Source: International Economy and Trade Information.

INDUSTRY OVERVIEW

The following chart shows the investment and revenue of the PRC telecommunications industry from 1993 to 2004.



Source: China Telecommunications Industry Analytical Research Report (中國電信行業分析研究報告)

China Telecom

China Telecom is a primary telecommunications operator in the PRC which operates a variety of domestic and international fixed telecommunications networks and facilities, including the wireless local loops, the data, image, multimedia and information services based on those networks, as well as relevant system integration and technology development.

China Mobile

China Mobile is a major telecommunications operator in the PRC founded on 20th April, 2000, under the communication industry management of the Ministry of Information Industry. Specially designated in the State financial planning, China Mobile has had its long-term and annual development plans incorporated into that of the central government.

Established in 1987, (before April 2000 when it was formally founded, it was operating under the name of Mobile Communication Bureau of China Telecom) China Mobile is the first entity in the PRC to provide mobile phone services to the general public. The wireless communication development in the PRC bears witness to the entire course of development of China Mobile and its predecessor, the mobile communication service under China Telecom. During the past 14 years, China Mobile has put in place an integrated communication network offering large coverage, diversified services and high communication quality. China Mobile mainly provides services in mobile phone, data, IP telephony and multimedia services, and has obtained the right to provide Internet services in international interconnection and provide fax, data, “Quanqitong” IP telephony, information-on-demand, handset banking, Global Access WAP and a host of other value-added services in addition to the basic voice service. Its “Quanqitong” and “Shenzhouxing” have become famous service brands and “139, 138, 137, 136 and 135” are well-known network numbers among households.

Breaking free from the convention of having administrative bodies at all levels of the administrative divisions, China Mobile organized and completed the work of removing and consolidating the provincial capital companies under the non-listed provincial (autonomous regional and municipal) mobile communication companies, adding transparency to the interfaces of the management and operational layers.

China Unicom

China Unicom is a major telecommunications operator in the PRC. China Unicom is formed by a consortium comprises of the former Ministry of Electronic Industries, the Ministry of Railways, the Ministry of Electric Power, and twelve other shareholders. China Unicom was formed to be a second telecommunications carrier in the PRC. Its network is an important part of the national public network. China Unicom’s businesses include mobile telephony, nationwide radio paging, international and domestic long distance telephony, data communication (e.g. Internet and IP telephony) and other related value-added services.

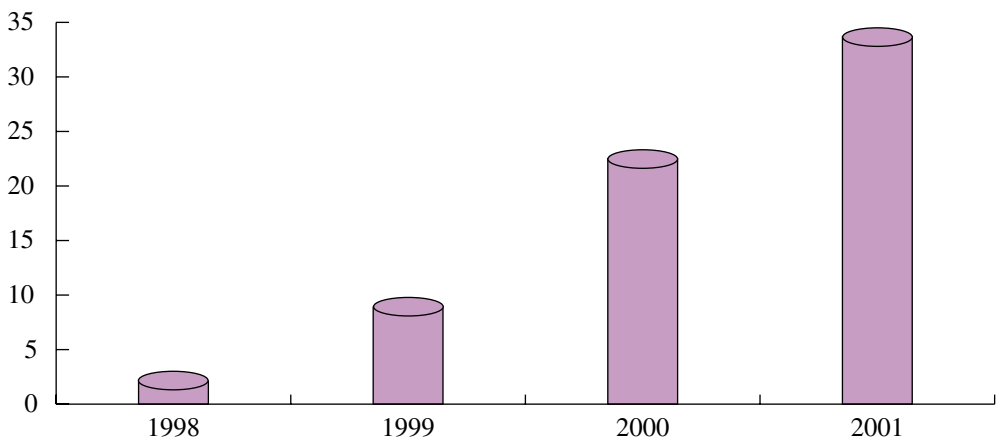
The establishment of China Unicom marked the end of the monopoly of China Telecom in the telecommunications industry which had lasted for half a century.

INTERNET MARKET IN THE PRC

The number of Internet users in the PRC has undergone significant growth in recent years. The number of Internet users in the PRC grew from approximately 2.1 million users in 1998 to approximately 33.7 million users in 2001, representing a CAGR of approximately 152%.

Number of Internet users in the PRC

(in million users)



Source: CNNIC

DEMAND FOR NETWORK INFRASTRUCTURE INVESTMENTS

The Directors expect that the PRC will be spending heavily to upgrade its network infrastructures and boost sluggish access speeds. As such, the Directors believe that there will be a corresponding increase in spending in the IT services.

Currently, the most common means of accessing the Internet for PRC web users has been narrowband dial-up access. The old telecommunications carriers which have been controlling the local access network are increasingly threatened by new entrants who are building up more advanced new networks such as fibre-optic metropolitan area network in major cities as well as conducting fixed wireless broadband trials. As such, this has resulted in the old telecommunications carrier, China Telecom, committing to upgrade or develop its network infrastructures to increase bandwidth.

SMS MARKET IN THE PRC

As the subscribers for wireless telecommunications services continue to increase with wireless services becoming more readily available, the popularity of using SMS has also increased. According to CCID, the benefits in using SMS include the sizable savings in communication fees, because SMS service fees are charged on a per-message-sent basis, whereas the typical wireless voice communication service fees are charged on a time basis, in which the minimal service fee charged per time is usually more expensive than the service fee charged on per message sent.

Currently, SMS is operable on various communication devices and platforms in the PRC, including but not limited to mobile phone, the Internet, pager and PDA. In addition to personal usage in sending messages, enterprises can also utilise SMS as a mass advertising medium.

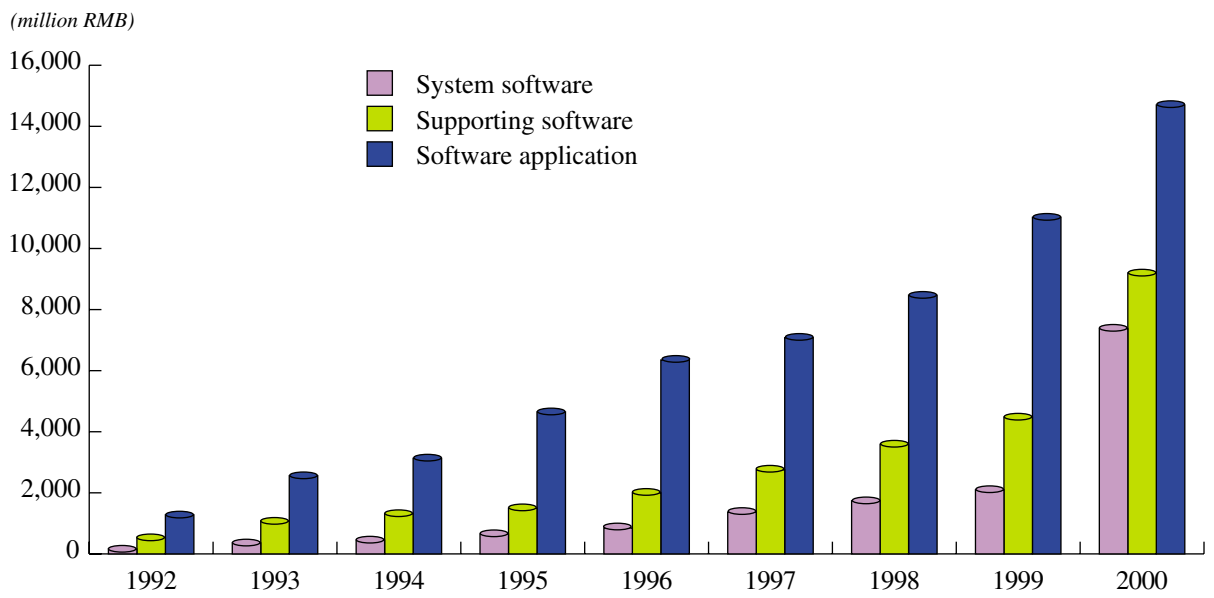
The emergence of the SMS market has created great demand for platform software and customer terminal software. In the near future, the Directors believe that a significant portion of China Mobile's and China Unicom's turnover will be attributed to SMS.

SOFTWARE MARKET IN THE PRC

According to CCID, computer software is categorised into three main categories: systems software, supporting software (e.g. database management software, network and communication software, language and developing tools software) and applications software (i.e. professional software developed to meet specific demands of specific industries).

The Statistics of Company Software Market Development (計算機軟件市場發展狀況統計) in the Year 1999 - 2000 published by the Center of Computer and Microelectronic Industry Development Research (中國信息產業部計算機與微電子發展研究中心) of the MII showed that the total sales in the PRC’s software market was RMB23 billion in 2000. The size of the software market in the PRC between 1992 and 2000 was as follows:

Sales in the software market of the PRC during the period 1992 - 2000



Source: CCID www.ccidconsulting.com (2000-2001 Annual Report of China Software Market)

PRC TELECOMMUNICATIONS REGULATIONS

MPT was established to regulate and monitor the PRC telecommunications industry. Prior to 1994, China Telecom had a monopoly over the telecommunications industry in the PRC. China Telecom's monopoly over the telecommunications industry ended when MPT granted China Unicom both a local and a long-distance telecommunications services licenses. In March 1998, MII was set up to replace MPT and was responsible for all network management functions that were previously regulated by the Ministry of Radio, Film and Television. As of the Latest Practicable Date, there are three major telecommunications operators in the PRC, namely China Telecom, China Mobile and China Unicom. Despite the breakup of the monopoly in the PRC telecommunications industry, China Telecom remains the dominant player with the broadest network coverage.

The PRC government strictly controls the telecommunications industry. At present there is no telecommunications law in China. The telecommunications industry is currently administered and supervised in accordance with the regulations formulated by the State Council, the MII and other government authorities.

The PRC Telecommunications Regulations (the "Telecommunications Regulations") promulgated by the State Council came into force in 2000 and aims to regulate the order of telecommunications market, protect the legal rights and interests of telecommunications subscribers and business operators, ensure the security of telecommunications networks and information and promote the development of the telecommunications industry.

The Telecommunications Regulations contain detailed regulations in respect of the telecommunications market, telecommunications service, establishment of telecommunications facilities and telecommunications security.

In connection with the telecommunications market, the Telecommunications Regulations provide that the State implements a system of permits for the operation of telecommunications business that are classified according to the type of telecommunications business. A telecommunications business operation permit issued by the State Council's department in charge of the information industry or the telecommunications administration authority of a province, autonomous region or municipality directly under the central government must be obtained in accordance with these Regulations in order to engage in telecommunications business. Telecommunications business is divided into basic telecommunications services, such as mobile phone services and fixed-line services, and value-added telecommunications service (which value-added telecommunications services include Internet access services and Internet information services). In order to operate basic Telecommunications services and value-added telecommunications services, the conditions provided in the Telecommunications Regulations shall be met, which include that the operator of basic telecommunications services shall be a company in which the State's equity or shareholding is not less than 51%.

As to the telecommunications services, the Telecommunications Regulations provide that telecommunications business operators must perform their corresponding obligations in respect of general telecommunications services.

As to the establishment of telecommunications facilities, the Telecommunications Regulations provide that the establishment of public telecommunications networks, dedicated telecommunications networks and television broadcasting networks shall be subject to overall planning and industry administration by the State Council's department in charge of the information industry. Before the construction of a public telecommunications network, dedicated telecommunications networks and television broadcasting networks that is a national information network project or a project above the limit set by the State is submitted for approval in accordance with the procedures for the examination and approval of State basic construction projects, the consent of the State Council's department in charge of the information industry shall be obtained. The State implements a network connection permit system for telecommunications terminal equipment, wireless communication equipment and equipment used in network interconnection.

The Internet business is regarded as a part of the telecommunications business in the PRC and the Telecommunications Law of the People's Republic of China is still in the process of being drafted. Currently, there is no fundamental law governing the Internet industry. The only existing rules and regulations are the administrative laws and regulations promulgated by the State Council and the rules and regulations promulgated by different ministries and commissions under the State Council and their legal effect is relatively insignificant; and as the Internet industry and the Internet technology are developing rapidly, it is necessary to formulate new laws and regulations to amend and supplement existing laws and regulations. The interpretation and implementation of the relevant prevailing laws and regulations are also continuously changing.

RELEVANT PRC POLICIES, LAWS AND REGULATIONS RELATING TO THE SOFTWARE INDUSTRY

Policies of the Industry

On 20th August, 1999, the State Council of PRC promulgated the Decision On Energizing Technology Innovation, Developing Hi-Technology and Realizing Industrialization (關於加強技術創新發展高科技實現產業化的決定), in which the hi-technologies, including computer and software, are highly valued. And the developing and producing of the software are also on the Category of Industries, Products and Technologies Which Are Encouraged by the State Currently (當前國家重點鼓勵發展的產業、產品和技術目錄) (promulgated jointly by the State Plan Commission and the State Economic and Trade Commission which became effective on 1st September, 2000).

On 24th June, 2000, the State Council of PRC promulgated the Notice of Several Policies on Encouraging the Development of Software Industry and Integrated Circuit Industry (關於鼓勵軟件產業和集成電路產業發展的若干政策的通知) (the "Notice"), which provides a series of preferential policies for software industry in various fields, such as investment, financing, tax, and income distribution, etc. The Notice also supports the financing of software enterprises by way of overseas listing.

Registration and Filing of Software Product

Pursuant to Article 7 of the Software Products Management Rules (軟件產品管理辦法) (the“S.P. Rules”, promulgated by the Information Industry Ministry of PRC on 27th October, 2000), software products shall be in compliance with the registration and filing system. Software products which have not been registered or filed or whose registrations have been withdrawn, are not entitled to be dealt in or sold in the PRC. Being in compliance with the provisions of the S.P. Rules and the registration and filing system, domestic software products may enjoy the relevant preferential policies provided by the Notice.

Article 12 of the S.P. Rules provides that the registration and filing of software products will not become effective unless the Software Products Registration Certificate (軟件產品登記證書) has been obtained and the public notice has been issued by the Information Industry Ministry of PRC. The valid term for software registration shall be five years and the term may be extended by means of application after its expiration.

Large-capacity Distributed Electronic Mailing System V1.0, Broad-band Network Fee-charging System (based on processed information) V1.0, Large-scale Broad-band Intelligence Operating System V2.0, Wireless Information Dissemination Control System V1.0, and Comprehensive Information Centre System V1.0, the main products of the Company, have been approved and registered by the Information Industry Bureau of Zhejiang Province and obtained the Software Products Registration Certificate.

Certificate of system integration business

Pursuant to Articles 4 and 5 of the Computer Information System Integration Quality Management Rules (the“S.I. Rules”) (計算機信息系統集成資質管理辦法) promulgated on 12th December, 1999 and takes effect on 1st January, 2000 by the Information Industry Ministry of PRC, any business units whose business involves computer information system integration must obtain a Qualification Certificate of Computer Information System Integration” (計算機信息系統集成資質證書) (“Certificate”). The Certificate granted to such enterprises is classified into four different grades which are determined in accordance with the abilities undertaken by the size of the enterprises. Enterprises which can independently undertake computer information system integration business (“Business”) up to State level will be granted a Grade 1 Certificate. Enterprises which can independently undertake the Business up to provincial level or cooperate with other entities to undertake the Business up to State level will be granted a Grade 2 Certificate. Enterprises which can independently undertake the Business in relation to medium scale projects or cooperates with other entities to undertake the Business in relation to large scale projects will be granted a Grade 3 Certificate. Enterprises which can independently undertake the Business in relation to small scale projects or cooperate with other entities to undertake the Business in relation to medium scale projects will be granted a Grade 4 Certificate.

In order to qualify to apply for the Certificate, the applicant must meet the requirements as stipulated in Article 12 of the S.I. Rules, which state that the applicant must, inter alia, either independently or through cooperation conduct the Business for two years or more and possess the capability of conducting the Business. Furthermore, the applicant must have completed three projects or more in respect of the Business and must have an independent legal person status which enables the applicant to conduct such Business. In 2001, the Group qualified to apply for the Certificate since it has accumulated over two years' experience in the Business and completed more than three projects in 1999 and 2000.

However, the S.I. Rules did not specify a stipulated period of time for enterprises which have satisfied the relevant requirements to proceed with the application of the Certificate commencing from the effective date of the S.I. Rules. The S.I. Rules did not specify a scheduled timeframe for governing department to make a reply concerning the issue of Certificate or rejection of application following the submission of such application. More importantly, the Rules had not indicated as to whether an enterprise should be prohibited from carrying on the Business, when such enterprise had passed the requisite qualifications but had not yet obtained the Certificate.

The Company has obtained all necessary approvals, consents and licenses in connection with its valid existence and its businesses as required by current PRC laws and regulations, including but not limited to the business license, tax registration certificates and computer information system integration qualification certificate, and such approvals, consents and licenses remain in full force as of the date of this prospectus. All the software products that are currently sold or dealt in by the Company have been duly registered and the sales of or dealing in such products by the Company in the PRC does not violate any PRC laws and regulations.

In December 2001, the Group was granted the Grade 3 Certificate.

Software Copyright

In the PRC, software copyright shall be in compliance with the registration system. If the software copyright has not been duly registered, the holders shall not be entitled to seek administrative remedies or take legal proceedings in respect of software copyright disputes. Under these software protection regulations in the PRC, software copyright holders enjoy the right of publication, right of authorship, right of use, right of licensing and receiving remuneration and right of transfer. The term of protection is 50 years from the date of first publication of the software if the holder is not a natural person or 50 years from the death of the holder if the holder is a natural person.

Any infringement of the copyright of computer software registered under the software protection regulations shall be enforced by cessation of the infringement, elimination of the effects, public apology, compensation for losses and other civil responsibilities. Software copyright disputes may be mediated and if mediation fails to bring about a reconciliation, the parties may have the disputes resolved by the People's Court. A software copyright contract dispute may be subject to arbitration.

HISTORY AND DEVELOPMENT

The Group is a provider of telecommunications solutions in the PRC, serving telecommunications operators, ISPs and ICPs in 19 provinces and 3 directly administered municipalities. Established on 13th November, 1996 in Zhejiang, the PRC, the Group is mainly managed by a group of Zhejiang University professors and graduates, most of whom have conducted extensive research on wireless communication systems since 1992. The Group is one of the first providers of wireless value-added systems in the PRC with major clients including China Unicom, China Mobile and China Telecom.

In May 1997, the Company, through its predecessor, Hangzhou Land, launched its first telecommunications solution, the wireless communication system, to telecommunications operators in the PRC. As the demand for enhanced telecommunications services continued to grow at a rapid rate, the Group commenced extensive R&D on a variety of new data communication solutions, particularly on the wireless value-added systems, to meet market demands. The Group launched its wireless value-added systems in December 1997 through the provision of wireless data transmission solutions and later expanded into providing solutions in interactive paging services, secretarial services and SMS, such as the wireless gaming and dating service capabilities.

Leveraging on the revenue generated from its wireless communication solution, the Company launched its first wireless value-added solution in Fujian, one of the first in the PRC, in December 1997. By the end of 1998, the data switch platform was subsequently launched and the Group had grown into a business with an established name in the telecommunications industry in the PRC. Subsequently, the Group launched its large capacity e-mail system in November 1999 and its telecom operation solutions, which include the broadband Internet CRM solutions and the telecom OA systems in February 2001 and May 2001 respectively.

Hangzhou Land, the predecessor of the Company, was a limited liability company established on 13th November, 1996 in the PRC, with an initial registered capital of RMB100,000. There were then altogether 3 founding equity holders, namely Chen Guo-cai, Wu Zhong-hao and Shi Chun-hua, holding 34%, 33% and 33% equity interest respectively. Until April 2001, Hangzhou Land had no board but only an executive director, who was Chen Guo-cai.

In May 1997, Chen Ping was appointed as the manager of Hangzhou Land. Chen Guo-cai (Chen Ping's father) delegated all the power and function of executive director to Chen Ping. In May 1998, the registered capital of Hangzhou Land was increased to RMB500,000.

After such increase of the registered capital, Chen Guo-cai, Wu Zhong-hao, Shi Chun-hua, Guo Qing, Wang Lei-bo, Wang Jin-cheng, Bao Shu-xin and Chen Ping held 25%, 25%, 25%, 5%, 5%, 5%, 5% and 5% equity interests in Hangzhou Land respectively.

In November 2000, Hangzhou Land, Chengdu Shengtong Communications Technology Co. Limited, (成都盛通通信技術有限公司) ("Chengdu Shengtong"), Shi Hung-tao and Liu Peng established Chengdu Land E & I Technology Co. Ltd. (成都蘭德電子信息技術有限公司) ("Chengdu Land") with a registered capital of RMB500,000, each with equity interest of 55%, 17.5%, 17.5% and 10% respectively. Chengdu Land was established to develop and provide telecommunication support services to telecommunications operators in the western region of the PRC.

GENERAL OVERVIEW OF THE GROUP

On 15th March, 2001, the registered capital of Hangzhou Land was increased to RMB2,500,000 by capitalising an aggregate amount of approximately RMB1,839,000 from the tax refund reserve and retained profits and a cash contribution of RMB161,000 respectively.

Upon completion of the above transaction, Chen Ping, Wu Zhong-hao, Shi Chun-hua, Chen Guo-cai, Liu Qiao-ping, Wang Lei-bo, Wang Jin-cheng, Bao Shu-xin, Chen Chun, Jin Lian-fu, Huo Zhong-hui and He Xiao-xun held 29.09%, 13.18%, 13.18%, 8.18%, 6.37%, 6.00%, 6.00%, 6.91%, 3.27%, 2.73%, 3.27% and 1.82% equity interests in Hangzhou Land respectively.

In April 2001, the registered capital of Hangzhou Land was increased to RMB4,545,400 by the additional paid-in capital of RMB2,045,400 from three new investors namely, Yu Qiang, Qware Science and Beijing Guoheng.

Upon completion of such capital increase, Chen Guo-cai, Wu Zhong-hao, Shi Chun-hua, Wang Lei-bo, Wang Jin-cheng, Bao Shu-xin, Chen Ping, Chen Chun, Jin Lian-fu, Huo Zhong-hui, Liu Qiao-ping, He Xiao-xun, Yu Qiang, Qware Science and Beijing Guoheng held 4.50%, 7.25%, 7.25%, 3.30%, 3.30%, 3.80%, 16.00%, 1.80%, 1.50%, 1.80%, 3.50%, 1.00%, 15.00%, 15.00% and 15.00% equity interests in Hangzhou Land respectively.

In May 2001, Hangzhou Land, Bao Shu-xin and Cheng Mei-rou established Hangzhou Trust Communication Service Co. Ltd. (杭州群思特通信服務有限公司) (“Hangzhou Trust”) with a registered capital of RMB500,000, each with equity interest of 60%, 25% and 15% respectively. Hangzhou Trust was established to develop technical support for the Company’s value-added services, including its SMS.

On 27th June, 2001, Yu Qiang, He Xiao-xun and Qware Science transferred all their equity interests in Hangzhou Land to Zhejiang Qware, Liu Qiao-ping and Zhejiang Innovation, respectively. At the time of the transfer, He Xiao-xun and Liu Qiao-ping were both employed by Hangzhou Land and Yu Qiang was and presently is a director of Zhejiang Qware. Zhejiang Innovation is an indirect shareholder of Qware Science.

In preparation for the listing of the Company’s shares on the GEM of The Stock Exchange of Hong Kong Limited, the Company was incorporated as a joint stock company on 20th September, 2001. 22,745,200 ordinary shares at par value of RMB1 each were issued to the existing shareholders based on the Company’s net asset value as at 30th June, 2001 as stated in the PRC audited financial statements. Since the completion of this conversion, the shareholding structure of the Company has not been changed.

In December 2001, the Company and Shanghai Haigang Communication Technology Company Limited (上海海港通信技術有限公司) (“Shanghai Haigang”) established Shanghai Langang Communication Technology Company Limited (上海蘭港通信技術有限公司) (“Shanghai Langang”) with a registered capital of RMB1,000,000, each with equity interest of 51% and 49% respectively. Shanghai Langang was established to consolidate and strengthen the wireless communication solutions business of the Company and Shanghai Haigang and to eliminate a rivalry in the market.

GENERAL OVERVIEW OF THE GROUP

Continuous management during the Relevant Periods

According to the articles of association of Hangzhou Land adopted prior to April 2001 (the “Hangzhou Land Articles”), the authoritative body of Hangzhou Land is the shareholders’ meeting (article 18). Article 18 sets out the key powers of the shareholders have, and mainly including the following:

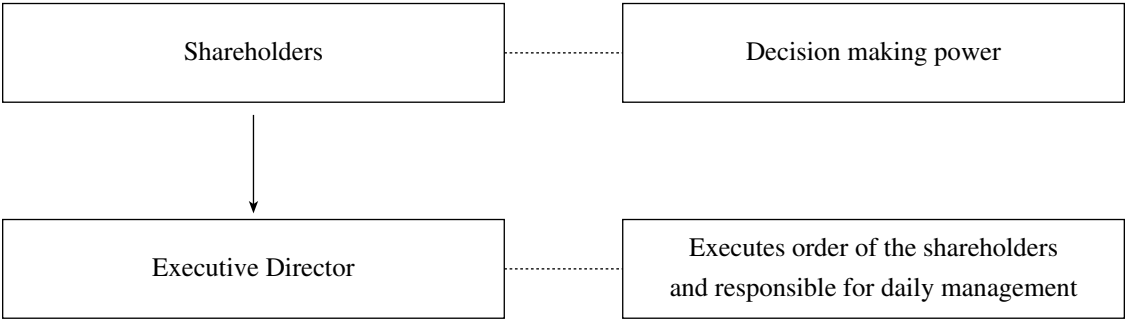
- (i) determining the direction of the company’s operation, and development and investment plans;
- (ii) electing and changing the executive director, and determining his remuneration;
- (iii) electing and changing supervisor, and determining his remuneration;
- (iv) reviewing and approving the executive director’s report;
- (v) reviewing, and approving the supervisor’s report;
- (vi) reviewing and approving the company’s annual budget and plan;
- (vii) reviewing and approving proposals on distribution of profits and remedy for losses;
- (viii) resolving to increase or reduce share capital;
- (ix) resolving to issue debenture;
- (x) resolving to transfer assets or invest in outsider;
- (xi) resolving to merge, subdivide, dismiss or dissolve the company; and
- (xii) amending the Hangzhou Land Articles.

Article 21 of the Hangzhou Land Articles stated that the company did not have a board of directors, but should have an executive director, to be elected by the shareholders’ board.

Article 22 of the Hangzhou Land Articles set out the duties of the executive director, which included the execution of the shareholders’ board resolutions (article 22(2)) and the hiring of managers for the Company (article 22(9)).

GENERAL OVERVIEW OF THE GROUP

The following chart shows the power structure of Hangzhou Land before April 2001:



Chen Guo-cai, Shi Chun-hua and Wu Zhong-hao, the three founders of Hangzhou Land, signed separate delegation letters delegating all of their shareholders’ rights in Hangzhou Land to Chen Ping from 28th May, 1997 to 12th November, 2016. Therefore from 28th May, 1997 to 12th November, 2016, Chen Ping held the controlling shareholding interests in Hangzhou Land, thereby giving him the decision making power in Hangzhou Land.

In addition to holding the shareholders’ rights, Chen Ping also acted as Hangzhou Land’s executive director pursuant to a delegation of power from his father, Chen Guo-cai. In fact, Chen Guo-cai has never undertaken any managerial activities in relation to Hangzhou Land. Nonetheless, when Hangzhou Land was first established, Chen Guo-cai had agreed to take up the post as an executive director at the request of his son, Chen Ping.

As a result, Chen Ping also controlled the day-to-day managements as its de facto executive director. In short, Chen Ping was acting in two different capacities, namely as the representative of the 3 shareholders and the other one being the de facto executive director.

Chen Guo-cai, 68 years old and father of Chen Ping, does not have any experience in the telecommunications industry. Chen Guo-cai previously served as a high school headmaster for almost 20 years and has conducted managerial activities at a hospital in Zhejiang province for 20 years. Chen Guo-cai officially retired in May 1996. Hence, Chen Guo-cai did not really have the energy, knowledge or expertise to discharge the duties required of an executive director and therefore delegated all of his power as an executive director to Chen Ping.

Chen Guo-cai did not have a management role in the Company, despite the fact that he had been appointed as an executive director prior to April 2001. Chen Guo-cai was only the Company’s figurehead as all his executive director duties had already been orally delegated to Chen Ping, his son. Chen Guo-cai only served as a legal representative, in which the role of being a legal representative was to execute duties requested by the management of the Company, which in the case of Hangzhou Land, rested with Chen Ping.

Chen Guo-cai has made a statutory declaration to confirm that while he held the position as an executive director, he did not manage the Company; Chen Ping has been the person managing the Company; he delegated all his powers as the executive director in the Company to Chen Ping; and he has delegated his shareholder’s rights in the Company to Chen Ping since May 1997 through 2 delegation letters dated and signed on 28th May, 1997 and 20th September, 2001, respectively.

GENERAL OVERVIEW OF THE GROUP

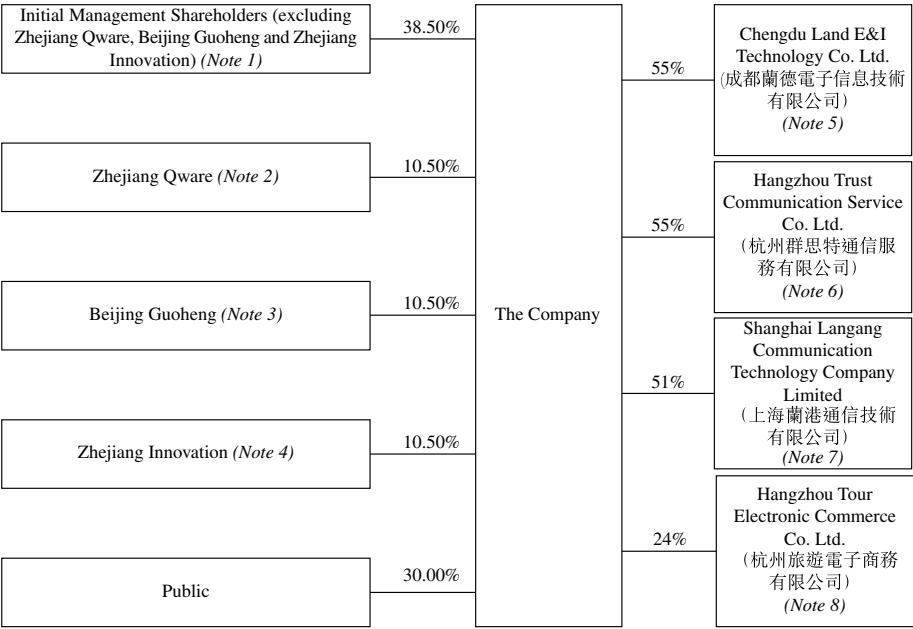
Shi Chun-hua and Wu Zhong-hao have each made a statutory declaration to confirm that she/he did not manage the Company; Chen Ping has been the person managing the Company; and she/he has delegated her/his shareholder power in the Company to Chen Ping since May 1997 through 2 delegation letters dated and signed on 28th May, 1997 and 20th September, 2001, respectively.

Chen Ping has made a statutory declaration to confirm that he accepted all Chen Guo-cai’s delegation of powers as the executive director in the Company; he has been the person managing the Company; he accepted each of Chen Guo-cai, Shi Chun-hua and Wu Zhong-hao’s delegation of power as a shareholder of the Company since May 1997 through 3 delegation letters dated and signed on 28th May, 1997 and 3 delegation letters dated and signed on 20th September, 2001.

Chen Guo-cai, Wu Zhong-hao and Shi Chun-hua have not made any management decisions for the Company other than delegating their shareholders’ rights to Chen Ping and executing the requests made by Chen Ping.

SHAREHOLDING AND GROUP STRUCTURE

Immediately following the completion of the Placing and upon the listing of the H Shares on GEM and without taking into account any H Shares which may be issued pursuant to the exercise of the Over-allotment Option, the shareholding and corporate structure of the Group is set out below:



Notes:

(1) The Initial Management Shareholders include Chen Ping, Bao Shu-xin, Wang Jin-cheng, Wang Lei-bo, Liu Qiao-ping, Chen Chun, Huo Zhong-hui, Jin Lian-fu, Chen Guo-cai, Wu Zhong-hao and Shi Chun-hua with shareholdings of 11.20%, 2.66%, 2.31%, 2.31%, 3.15%, 1.26%, 1.26%, 1.06%, 3.15%, 5.07% and 5.07% respectively. Chen Ping, Bao Shu-xin and Chen Chun are executive Directors of the Company. Chen Guo-cai was a founder, a prior Director and a prior legal representative of the Company. Wu Zhong-hao was a founder of the Company. Shi Chun-hua was a founder and a prior supervisor of the Company. Wang Jin-cheng is an engineer of the Company. Wang Lei-bo is a Technology Manager of the Company. Liu Qiao-ping is the Assistant to the General Manager and the Secretary of the Board. Huo Zhong-hui is the Company’s R&D Manager. Jin Lian-fu is the Company’s Operation Manager.

GENERAL OVERVIEW OF THE GROUP

Each of the Initial Management Shareholders has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, no one will dispose of each of their interests in the Company.

- (2) Zhejiang Qware, being one of the Promoters, an Initial Management Shareholder and a Substantial Shareholder of the Company, is a limited company established in the PRC on 11th May, 2001 with a registered capital of RMB18,000,000. Zhejiang Qware is principally engaged in the investment of high technology companies. There are altogether 20 equity holders of Zhejiang Qware and all of them are individuals. Its significant equity holders are Zhao Jian (趙建), Wang Xian-ping (王獻平), Zhao Yang (趙洋), Yu Qiang (郁強), Jiang Yi (蔣憶), Wu Xing-jiu (吳慶九), Men Su-qing (門素琴), Chen Ping (陳平), Jiang Quan (蔣泉), Deng Ze-quan (鄧澤全) who hold 11.44%, 8.83%, 9.45%, 7.44%, 7.44%, 7.28%, 5.56%, 5.56%, 5.39% and 6.25% equity interest respectively in Zhejiang Qware. Save as aforesaid, no other equity holders holds more than 5% equity interest in Zhejiang Qware. Zhao Jian is the representative of Zhejiang Qware serving as an executive Director of the Company. Zhao Jian mainly conducts monitory and supervisory activities within the Company and does not act in concert as a group with other members of the Board.

The basis of the lock up for Zhejiang Qware is to lock up all the ultimate beneficial shareholders, which include the 20 individual equity holders.

Zhejiang Qware has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in the Company. Each of the 20 equity holders of Zhejiang Qware has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, he/she will not dispose of his/her interests in Zhejiang Qware.

Chen Ping is a Director and Chairman of the Company. Zhao Jian is a Director and Vice-chairman of the Company. Chen Chun is a director of Zhejiang Qware and the Company. Yu Qiang was a prior director of Hangzhou Land.

Save as aforesaid, all the other equity holders of Zhejiang Qware are Independent Third Parties.

- (3) Beijing Guoheng, being one of the Promoters, an Initial Management Shareholder and a Substantial Shareholder of the Company, is a joint stock limited company established in the PRC on 13th September, 1994 with a registered capital of RMB76,000,000. Beijing Guoheng is principally engaged in the investment of high technology companies.

The basis of lock up for Beijing Guoheng is to lock up all direct equity holders of Beijing Guoheng and the entities and individual that when act in concert as a group will have effective interests of over 30% in Beijing Guoheng. The lock up arrangement for Beijing Guoheng also included Xiamen Property and Fujian Tianxiang Group Holdings Co., Ltd. (福建天香集團股份有限公司) (“Fujian Tianxiang”) as Xiamen Property has a substantial interest of 25.66% in Beijing Guoheng and Fujian Tianxiang is the single largest equity holder of Xiamen Property, holding 80.00%. Xue Shi-cheng is the representative of Beijing Guoheng serving as an executive Director of the Company. Xue Shi-cheng mainly conducts monitory and supervisory activities within the Company and does not act in concert as a group with other members of the Board.

Beijing Guoheng has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in the Company.

GENERAL OVERVIEW OF THE GROUP

There are altogether 5 shareholders of Beijing Guoheng as follows:

	Shareholding in Beijing Guoheng
Shanghai Huayu Property Development Co., Ltd. (上海華育置業發展有限公司) ("Shanghai Huayu")	34.34%
Xiamen Tianxiang Property Co., Ltd. (廈門天香置業有限公司) ("Xiamen Property")	25.66%
Huatong International Merchant Group Limited (華通國際招商集團股份有限公司) ("Huatong International")	21.05%
Xiamen Huatong International Merchant Co., Ltd. (廈門華通國際招商有限公司) ("Xiamen Huatong")	10.53%
Fujian Huatong Property Co., Ltd. (福建華通置業有限公司) ("Fujian Huatong")	8.42%
Total:	100.00%

Gao Yang-yu is the single largest ultimate controlling shareholder of Beijing Guoheng, of which he has a direct and indirect interest of 31.11% in Beijing Guoheng. Gao Yang-yu owns 89.21% of New Asia (China) International Group Company Limited, which wholly owns Xinwo Technology Development (Shenzhen) Co., Ltd. (新沃科技發展(深圳)有限公司) ("Xinwo") which has a controlling interest of 51.64% in Huatong International. Xiamen Huatong and Fujian Huatong are both subsidiaries of Huatong International, which is 60.0% and 99.4% owned by Huatong International respectively. Huatong International has a controlling interest in Shanghai Huayu through its direct equity holding of 36.0% and its indirect equity holding of 39.0% through its 99.4% subsidiary, Fujian Huatong.

The equity holders of Huatong International are Xinwo and 13 other companies. The controlling equity holder of Huatong International is Xinwo, which holds a 51.64% equity interest. Xinwo is wholly owned by New Asia (China) International Group Company Limited (新亞(中國)國際集團有限公司), which is owned as to 89.21% by Gao Yang-yu, who is an Independent Third Party. Huatong International has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Beijing Guoheng, Fujian Huatong, Shanghai Huayu and Xiamen Huatong. Xinwo has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Huatong International. New Asia (China) International Group Company Limited has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Xinwo. Gao Yang-yu has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, he will not dispose of his interests in New Asia (China) International Group Company Limited.

The equity holders of Shanghai Huayu are Beijing Huayu Property Development Co. (北京華育房地產開發公司), Huatong International, Beijing Guoheng Property Holdings Co., Ltd. (北京國恆實業股份有限公司) and Fujian Huatong. The controlling equity holders of Shanghai Huayu are Fujian Huatong and Huatong International which hold 39% and 36% equity interest respectively. Fujian Huatong is controlled by Huatong International as to 99% equity interest. Shanghai Huayu has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Beijing Guoheng.

The equity holders of Xiamen Property are Fujian Tianxiang and Xiamen Huatong. Fujian Tianxiang is the controlling equity holder of Xiamen Property, holding an 80% equity interest. Xiamen Property has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Beijing Guoheng. Fujian Tianxiang has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Xiamen Property.

The equity holders of Xiamen Huatong are Huatong International, Fujian Huatong, Shanghai Huashang Investment Co., Ltd. (上海華商投資有限公司), and Fuzhou Development Zone Hualong Industrial Development Co. (福州開發區華隆實業發展公司) ("Fuzhou Development"). The controlling equity holder of Xiamen Huatong is Huatong International, which holds a 60% equity interest. Xiamen Huatong has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Beijing Guoheng and Xiamen Property.

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The equity holders of Fujian Huatong are Huatong International and Fuzhou Development. Huatong International, the controlling equity holder of Fujian Huatong holds a 99.4% equity interest. Fujian Huatong has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Beijing Guoheng, Shanghai Huayu and Xiamen Huatong.

Mr. Xue Shi-cheng (薛仕成) is a director of Beijing Guoheng and the Company.

Save as aforesaid, all the above 5 equity holders of Beijing Guoheng are Independent Third Parties.

- (4) Zhejiang Innovation, being one of the Promoters, an Initial Management Shareholder and a Substantial Shareholder of the Company, is a limited company established in the PRC on 6th June, 2001 with a registered capital of RMB240,000,000. Zhejiang Innovation is principally engaged in the investment of high technology companies. Zhejiang Innovation has invested RMB5,000,000 in the Company, representing approximately 2.08% of its net assets value as of 31st December, 2001. Chen Chun is the representative of Zhejiang Innovation serving as an executive Director of the Company. Chen Chun mainly conducts monitory and supervisory activities within the Company and does not act in concert as a group with other members of the Board.

The basis of lock up for Zhejiang Innovation is to lock up all direct equity holders of Zheijang Innovation and the entities and individual that when act in concert as a group will have effective interests of over 30% in Zhejiang Innovation.

Zhejiang Innovation has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in the Company.

There are altogether 9 equity holders of Zhejiang Innovation as follows:

	Equity holding in Zhejiang Innovation
Zhejiang Zheda Haina Technology Co., Ltd. (浙江浙大海納科技股份有限公司) ("Zheda Haina")	15.00%
Shaoxing Tianran Feather Products Co. (紹興市天然羽絨制品總公司) ("Tianran Feather")	14.58%
Tonghe Investment Holdings Co., Ltd. (通和投資控股有限公司) ("Tonghe")	13.75%
Dongyang Taiheng Investment Co., Ltd. (東陽市泰恒投資有限公司) ("Dongyang Investment")	13.33%
Shaoxing Tianran Group Limited (紹興市天然集團有限公司) ("Shaoxing Tianran")	12.50%
Zhejiang University - Computer Application and Software Engineering Support Co., Ltd. (浙江大學計算機應用與軟件工程技術中心有限公司) ("Zhejiang Computer")	8.34%
Shanghai Yicheng Investment Co., Ltd. (上海怡誠投資有限責任公司)	8.33%
Zhejiang Qware	8.13%
Shanghai Banghe Investment Management Co., Ltd. (上海邦和投資管理有限公司) ("Bangle Investment")	6.04%
	Total: 100.00%

The promoters of Zheda Haina are Zhejiang University Corporate Holdings Co., Ltd. (浙江大學企業集團控股有限公司), Zhejiang Province Science and Technology Venture Capital Co. (浙江省科技風險投資公司), Li Liben (李立本), Chu Jian (褚健), Zhao Jian (趙建) and Zhang Jinxin (張錦心). Zhejiang University Corporate Holdings Co., Ltd., the controlling shareholder of Zheda Haina holds a 62.45% shareholding. Zhejiang University Corporate Holdings Co., Ltd. is wholly owned by Zhejiang University.

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The shareholders of Tianran Feather is Shaoxing Municipal Supply and Marketing Cooperative (紹興市供銷合作總社). Shaoxing Municipal Supply and Marketing Cooperative is a collectively-owned enterprise, which is an Independent Third Party.

The major equity holders of Tonghe are Finance Bureau of Jinhua (金華市財政局), Jinhua Jinwei Property Management Co., Ltd. (金華市金威產權管理服務有限公司), Guangsha Construction Group Co., Ltd. (廣廈建築集團有限責任公司), Zhejiang Jinke Investment Co., Ltd. (浙江金科創業投資有限公司), Hangzhou Construction Group Co., Ltd. (杭州建工集團有限公司) and Zhejiang Guangsha Construction Group Co., Ltd. (浙江廣廈建築集團股份有限公司) which own 24.37%, 26.85%, 11.76%, 7.35%, 7.35% and 6.81% respectively of the equity of Tonghe. Tonghe has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Zhejiang Innovation, Dongyang Investment, Zhejiang Computer and Zhejiang Tiansheng Information Property Investment Co., Ltd. (浙江天聲信息產業投資有限公司) (“Tiansheng Information”). Tiansheng Information has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Shaoxing Tianran.

The controlling equity holder of Dongyang Investment is Tonghe which holds a 90% equity interest. Dongyang Investment has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Zhejiang Innovation.

The controlling equity holder of Shaoxing Tianran is Tianran Feather which holds an 80% equity interest. Tianran Feather is controlled by Shaoxing Municipal Supply and Marketing Cooperative, a collectively-owned enterprise. Shaoxing Tianran has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Zhejiang Innovation.

The equity holders of Zhejiang Computer are Zhejiang University, Hangzhou Huabo Information Technology Co., Ltd. (杭州華博信息技術有限公司) and Tonghe, which hold 35%, 40% and 25% equity interest respectively in Zhejiang Computer. Hangzhou Huabo Information Technology Co., Ltd. is owned by Zhao Shen-qi (趙申琪), Zhuang Yue-ting (莊越挺) and Wu Zhao-hui (吳朝暉) who are all Independent Third Parties. Zhejiang Computer has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Zhejiang Innovation.

The equity holders of Shanhai Yicheng Investment Co., Ltd. (上海怡誠投資有限責任公司) are three individuals, all of whom are Independent Third Parties.

The equity holders of Zhejiang Qware are set forth in Note (2). Zhejiang Qware has undertaken to the Company, the Sponsor and the Stock Exchange that within twelve months from the Listing Date, it will not dispose of its interests in Zhejiang Innovation.

The equity holders of Banghe Investment are Zhu Cheng-yi (朱成羿), Weng Ji-yi (翁吉義), Huang Yong (黃勇), Liu Shao-bing (劉紹兵), Liu Ke (劉可) and Meng Xin-ge (孟新革), all of whom are Independent Third Parties.

No equity holders of Zhejiang Innovation other than Tonghe, Dongyang Investment, Tiansheng Information and Zhejiang Computer act in concert as a group will have a controlling interest in Zhejiang Innovation. None of the direct equity holders of Tonghe when acting in concert as a group have a controlling interest in Tonghe.

Mr. Zhao Jian (趙建) and Mr. Chen Chun (陳純) are directors of Zhejiang Innovation as well as the Company. Mr. Chen Chun is also one of the Promoters.

Save as aforesaid, all the 9 equity holders of Zhejiang Innovation are Independent Third Parties.

- (5) Chengdu Land is a limited company incorporated in the PRC on 23rd November, 2000 with a registered capital of RMB500,000. The registered capital of Chengdu Land has been fully paid-up by way of cash injection. Chengdu Land serves as a sales channel to expand the Company’s telecommunications solutions business in the southwestern region of

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the PRC. Chengdu Shengtong is a telecommunications terminal devices distributor in the southwestern region in the PRC. Chengdu Shengtong's equity interests in Chengdu Land had been fully paid-up by way of cash injection. The Company expects that Chengdu Shengtong will bring in additional business through Chengdu Shengtong's close relationship with the regional telecommunications operators.

The Company is the major equity holder of Chengdu Land holding 55% equity interest. The other equity holders are Chengdu Shengtong, Shi Hung-tao (石洪濤) and Liu Peng (劉鵬) (with equity interest of 17.5%, 17.5% and 10.0% therein respectively) who are all Independent Third Parties. Shi Hung-tao is the marketing director and Liu Peng is the assistant to general manager of Chengdu Land, respectively, to whom they were offered minority equity interests in Chengdu Land as job incentives. The equity interests in Chengdu Land had all been paid up by each of equity holders by way of cash injections.

Liu Peng, 27 years old and the assistant general manager of Chengdu Land, previously served as a programmer and a marketing officer responsible for exploiting the southwestern regional market for the Company for 3 years. The Company has offered Liu Peng an equity interest in Chengdu Land as job incentive where Liu Peng continues his duties in liaising with potential clients and overlook the day-to-day management at Chengdu Land.

Shi Hung-tao, 39 years old and the marketing director of Chengdu Land, previously served as a marketing officer responsible for liaising with telecommunications clients in the southwestern regional market at Chengdu Shengtong for 4 years. The Company has offered Shi Hung-tao an equity interest in Chengdu Land as job incentive where Shi Hung-tao will continue his duties in marketing the Company's telecommunications solutions and products.

Chengdu Land has no board of directors but an executive director, namely Chen Ping.

- (6) Hangzhou Trust is a limited company incorporated in the PRC on 10th May, 2001 with a registered capital of RMB500,000. On 30th January, 2002, the registered capital was increased to RMB1,000,000. The registered capital of Hangzhou Trust has been fully paid-up by way of cash injection.

Hangzhou Trust is responsible for handling the service and strategic planning aspects of the wireless value-added solutions, in particular, the SMS products.

Presently, the Company as the major equity holder of Hangzhou Trust holds 55% equity interest of Hangzhou Trust. The other equity holders are Zhou Yu-xiang (周玉祥), Pan Guo-yung (潘國勇) and Cheng Mei-ru (滕美如) (with equity interest of 24%, 16% and 5% therein respectively), who are all Independent Third Parties.

Zhou Yu-xiang, 32 years old and the general manager of Hangzhou Trust, graduated from Zhejiang University, previously served as a general manager at a data communication company, responsible for day-to-day operation, conducted researches and developments of Internet products and has been responsible for customer servicing and strategic planning for 4 years. The Company has offered Zhou Yu-xiang an equity interest in Hangzhou Trust as job incentive where Zhou Yu-xiang had fully paid up his equity interests in Hangzhou Trust by way of cash injection. Zhou Yu-xiang will continue his duties in liaising with potential clients, conducting strategic planning activities and overlooking the day-to-day management.

Pan Guo-yung, 45 years old, does not have a management role at Hangzhou Trust. However, Pan Guo-yung has been involved in the marketing and strategic planning activities at an advertising company, responsible for customer servicing and strategic planning for 14 years. The Company has offered Pan Guo-yung an equity interest in Hangzhou Trust as job incentive where Pan Guo-yung had fully paid up his equity interests in Hangzhou Trust by way of cash injection. Pan Guo-yung will be indirectly involved in the marketing and advertising of the Group's solutions and products.

Cheng Mei-ru, 61 years old and a supervisor at Hangzhou Trust, has previously worked at a predecessor of China Telecom as a telecommunications engineer for more than 30 years. The Company has offered Cheng Mei-ru an equity interest in Hangzhou Trust as job incentive where Cheng Mei-ru can provide Hangzhou Trust with telecommunications expertise and strategic planning and establish a stronger business tie with China Telecom.

Hangzhou Trust has no board of directors but an executive director, namely Chen Ping.

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- (7) Shanghai Langang is a limited company incorporated in the PRC on 10th December, 2001 with a registered capital of RMB1,000,000. The registered capital of Shanghai Langang has been fully paid-up by way of cash injection.

The establishment of Shanghai Langang is to consolidate the telecommunications expertise of the Company and Shanghai Haigang, to strengthen and expand the wireless communication solutions businesses and to eliminate a rivalry.

The Company as the major equity holder of Shanghai Langang holds 51% equity interest of Shanghai Langang whereas Shanghai Haigang holds 49% equity interest of Shanghai Langang. The equity holders of Shanghai Haigang are all Independent Third Parties.

Shanghai Langang has no board of directors but an executive director, namely Chen Ping.

- (8) Hangzhou Tour is a limited company incorporated in PRC on 11th July, 2000 with a registered capital of RMB1,500,000. The Company as a minor equity holder of Hangzhou Tour holds 24% equity interest of Hangzhou Tour whereas Hangzhou Tourism Corporation (杭州市旅遊總公司) and Hangzhou Saiyou Wangji Information Engineering Co., Ltd (杭州賽友網際信息工程有限公司) holds 40% and 36% equity interest of Hangzhou Tour respectively.

Hangzhou Tour is engaged in the provision of information systems for tourist related businesses. Chen Ping (a shareholder and Director of the Company) and Jin Lian-fu (a shareholder and the operations manager of the Company) are directors of Hangzhou Tour. The Company is a passive investor of Hangzhou Tour, in which the Company only has a minority board representation in Hangzhou Tour.

COMPETITIVE STRENGTHS

Relationship with Zhejiang University

The Group has maintained a strong working relationship with Zhejiang University since the Group's establishment in November 1996. For the three years ended 31st December, 2001, the Group had contributed a total of approximately RMB1.5 million to Zhejiang University for conducting R&D on telecommunications solutions. On 24th September, 2001, the Group and Zhejiang University established the Research Center, providing a testing facility for Zhejiang University students to conduct R&D on advanced telecommunications technologies, while the Group gained access to advanced telecommunications technology, an abundant source of technical human resources and the right to use all intellectual properties developed through this joint venture. On 1st January, 2002, the Group started to invest approximately RMB1 million per annum in the Research Center for a period of five years. The Research Center is comprised of a number of Zhejiang University professors and students whose main focus is on researching and developing telecommunications products that have high commercial potentials.

Experienced management team

The Directors believe that the Group's management team is well prepared to capitalise on the current and future growth of the telecommunications industry in the PRC as a telecommunications solutions provider. Many of the Company's Directors and senior management, including Chen Ping, Chen Chun, Jin Lian-fu and Qiu Jin-song have been actively involved in the telecommunications industry since 1992. Chen Ping and Qiu Jin-song, in particular, were granted the Zhejiang Province Science and Technology Advancement Second and Third Prizes, respectively in 1992. The Company's executive Director and the head of the Research Center, Chen Chun, was awarded the National Science and Technology Advancement Third Prize in December 1996, the Zhejiang Province Science and

GENERAL OVERVIEW OF THE GROUP

Technology Advancement Second Prize in February 1991, the Textile Association Technology Second Prize in December 1995, and The Second Youth Prize of Science and Technology in May 1992, whom the Directors believe will assist the Group in developing more sophisticated telecommunications solutions.

Extensive market coverage

Since its establishment in 1996, the Group has become one of the leading telecommunications solutions providers in the PRC. The Group has service agreements with major telecommunications operators in China; in particular, China Unicom, China Mobile and China Telecom, to provide telecommunications solutions. As at the Latest Practicable Date, the Group has market coverage in 19 provinces and 3 directly administered municipalities, including Anhui, Beijing, Chongqing, Fujian, Gansu, Guangdong, Guangxi, Guizhou, Heilongjiang, Henan, Hubei, Jiangsu, Jiangxi, Liaoning, Shaanxi, Shandong, Shanghai, Shanxi, Sichuan, Xinjiang, Yunnan and Zhejiang.

Alliances

The Directors believe that the Group has established an array of alliances with companies which are reputable in the telecommunications industry that enable the Group to provide a variety of sophisticated telecommunications solutions. The Group's alliances are further described under the paragraph headed "Strategic Alliances" to this prospectus.

Quality after-sales support

The Group has a team of devoted and capable personnel to provide clients with quality after-sales support through a customer service center. Understanding the importance of ensuring customer satisfaction and CRM, especially in ensuring products and services quality, the retention of clients and the promotion of future products and solutions, the Group requires its after-sales support team to undergo a continuous customer and technical training program to ensure that their quality service standards are sustained. Moreover, the Group has created a project management committee to ensure quality services. Typically, the Group will offer an one-year warranty period to its customers and will not charge its customers for the after-sales services provided. However, in exceptional situations, where the problem or failure of the system is due to the customer's misuse, the Group shall negotiate with the customer for an appropriate amount of maintenance fees on a case-by-case basis.

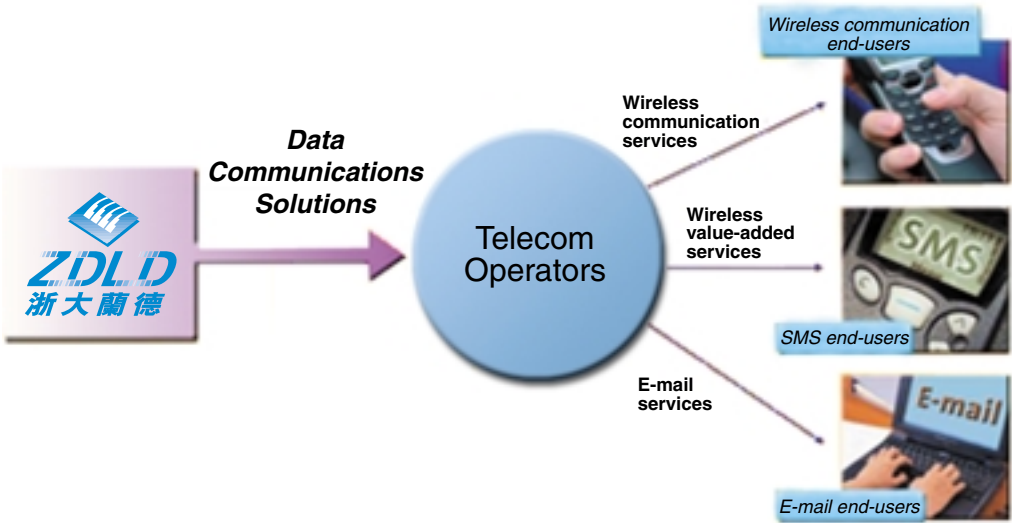
PRODUCT DESCRIPTIONS

The Group is a provider of telecommunications solutions in the PRC, with core services in providing data communication solutions and telecom operation solutions to telecommunications operators. Most of the solutions and products that the Group offers are proprietary and include both software and hardware components. Fine-tuning is necessary to ensure system compatibility when integrated on each solution and product according to the customers' requirements.

Data communication solutions

The data communication solutions are designed to enable telecommunications operators to offer integrated solutions on various communication platforms, such as the Internet, SMS, mobile network and paging network, enabling end-users to utilise the telecommunications services. The solutions are typically comprised of the sale of software, the sale of hardware and the provision of technical support

services, which amounted to approximately 35.9%, 46.8% and 17.3% of the Group's turnover generated from data communication solutions for the year ended 31st December, 2001. The solutions include wireless communication system, data switch platform, wireless value-added systems and large capacity e-mail system.



1. Wireless communication system

The wireless communication system enables telecommunications operators to systematically transmit and receive wireless data messages via a data-encoding system, FLEX, to provide wireless terminal users a wide range of data services. The wireless communication system includes an automatic data receiving system, a call center management system, a centralised data processing system and the FLEX data-encoding system. Information transmittable through this service includes text data, complex stock graphs and icons. The wireless communication system is the Group's first product and was launched in May 1997 and have since then become one of the Group's core revenue sources. Leveraging on the steady stream of revenue generated from the wireless communication system, the Group is able to finance R&D projects for other new products.

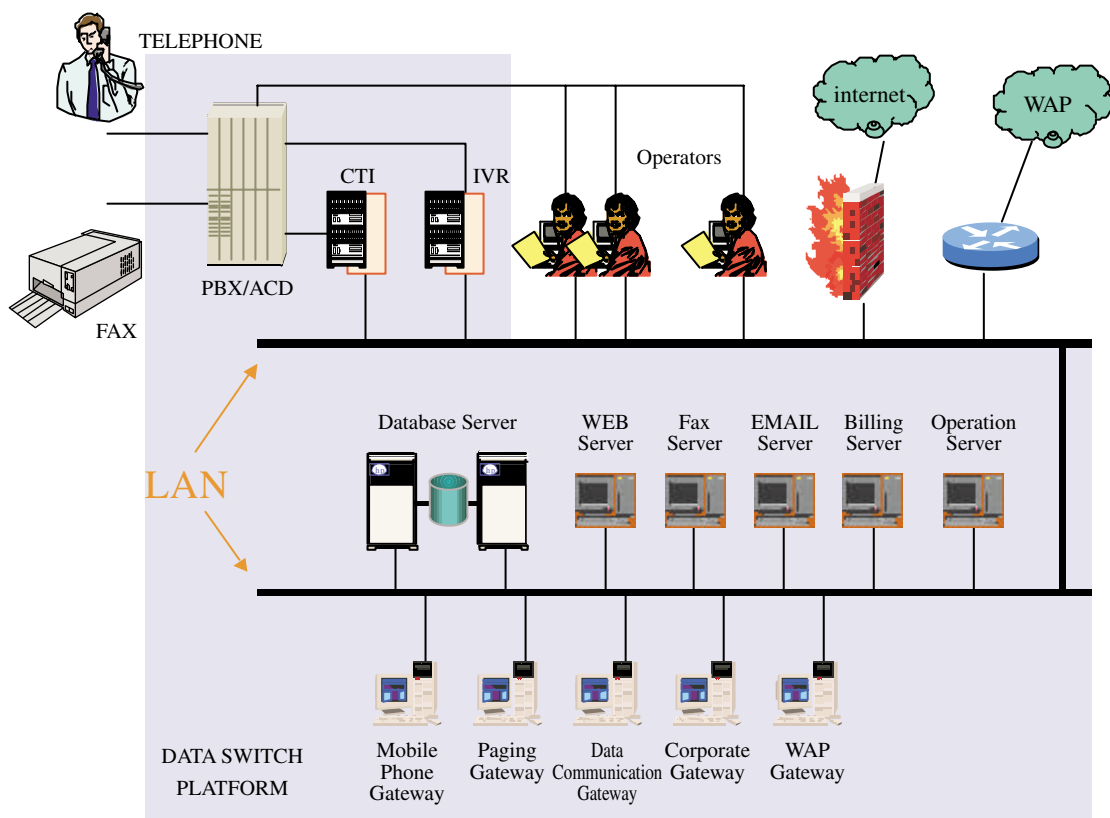
The Directors believe the Group's wireless communication system possesses great growth potential, as wireless communication becomes increasingly popular in the PRC. As at the Latest Practicable Date, the Group is one of the leading providers of wireless communication systems in the PRC, in which the product has served telecommunications operators in 12 provinces and 1 directly administered municipal, namely Anhui, Fujian, Gansu, Guangdong, Guangxi, Henan, Jiangsu, Shaanxi, Shanxi, Shanghai, Sichuan, Xinjiang and Zhejiang. For each of the three years ended 31st December, 2001, turnover generated from the wireless communication system amounted to approximately RMB0.9 million, RMB1.6 million and RMB9.0 million, respectively.

2. *Data switch platform*

The data switch platform is a centralised data processing unit, where data received from a communication platform (e.g. mobile phone network) will go through the data switch platform and be re-routed to either a database management server or a different communication platform (e.g. the Internet). The Group's first data switch platform was launched in late 1998 with upgrading activities conducted every now and then to include more functionality, such as Internet compatibility. The data switch platform is typically sold with the wireless value-added systems.

The data switch platform provides a reliable and smooth integrated data processing platform for telecommunications operators. The platform is compatible with all major communication mediums, including the mobile network, the SMS network, the Internet, e-mail systems and paging network. The platform is comprised of a centralised data retrieval system, CTI, IVR, PBX/ACD and various data transmission gateways and is linked to the wireless value-added systems.

The Group currently offers its telecommunications clients and corporate clients the flexibility to purchase either the integrated data switch platform as a whole or the centralised data retrieval and transmission system separately. The Directors believe that the Group's data switch platform provides telecommunications operators and corporate management with an efficient solution in which the system kernel is highly expandable and its IVR system flow can be easily altered with an application editing tool tailored towards the clients' needs. The Group is one of the few telecommunications solutions providers that offers a wide range of solutions on different network mediums, such as the mobile network and wireless data network. As at the Latest Practicable Date, the Group's data switch platform has served telecommunications operators in 13 provinces and 1 directly administered municipal, namely Anhui, Fujian, Gansu, Heilongjing, Hubei, Jiangxi, Liaoning, Shaanxi, Shandong, Shanghai, Shanxi, Sichuan, Xinjiang and Zhejiang. For each of the three years ended 31st December, 2001, turnover generated from the data switch platform totaled approximately RMB2.9 million, RMB8.5 million and RMB17.7 million, respectively.



3. *Wireless value-added systems*

Launched in December 1997, the Group's wireless value-added systems are among the first to be offered to telecommunications operators in the PRC. The wireless value-added systems are supplemental systems to the traditional communication network, offering telecommunications operators new revenue-generating channels through interactive data services, such as SMS, Internet paging and wireless gaming. The systems also include a sophisticated call center. The call center enables telecommunications operators to receive and process audio and data requests via telephone, fax, computers and the Internet, in which the Group's PBX/ACD will decide whether the data received should be processed under an IVR system or a team of professional manual operators. Once the request has been recognised, the system will then retrieve the data through its database and transmit the content to the appropriate receptors via various gateway mediums, such as the mobile network, wireless data network and corporate network. The Group's wireless value-added systems have great flexibility in which they can be sold separately and linked directly to the communication network or sold with the data switch platform.

As wide bandwidth wireless communication and sophisticated wireless terminal devices become more and more easily accessible and popular in the PRC, simple two-way audio communication is no longer sufficient to fulfill the demands of today's subscribers of wireless terminals. Instead, value-added data services on wireless terminal devices are becoming an increasingly essential factor to wireless terminal subscribers when selecting a wireless communication service provider.

The Group currently provides telecommunications operators with a wide range of solutions for enabling wireless value-added services, including real-time stock quotations, SMS and various news and entertainment information services, such as wireless gaming, dating services, weather forecast and lottery results. The Group intends to develop more sophisticated wireless value-added systems, such as the recently developed wireless quiz game system, a system that operates on the SMS platform. As at the Latest Practicable Date, the Group's wireless value-added systems have served telecommunications operators in 13 provinces and 2 directly administered municipalities, namely Anhui, Beijing, Fujian, Gansu, Helongjing, Hubei, Jiangxi, Liaoning, Shaanxi, Shandong, Shanghai, Shanxi, Sichuan, Xinjiang and Zhejiang. For each of the three years ended 31st December, 2001, turnover generated from the wireless value-added systems totaled approximately RMB0.5 million, RMB8.8 million and RMB18.9 million respectively.

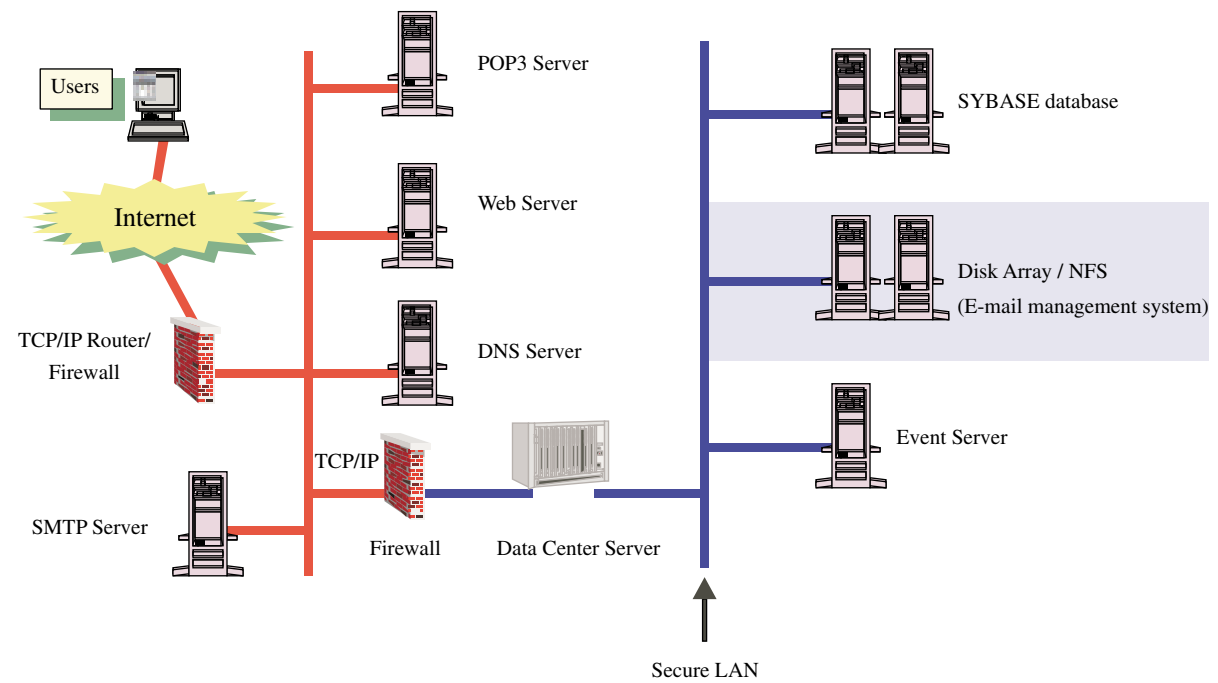
4. *Large capacity e-mail system*

The Group's large capacity e-mail system is targeted at telecommunications operators that offer Internet access services. The system provides flexible solutions for ISPs to increase the e-mail management server capacity by simply connecting several servers with the Group's large capacity e-mail management solutions set up, rather than changing new servers every time a client needs to increase his/her e-mail management capacity. The Group's large capacity e-mail system is a solution to potential overloading problem of traditional e-mail management systems that are close to or at maximum capacity, which may significantly delay or interrupt e-mail delivery services.

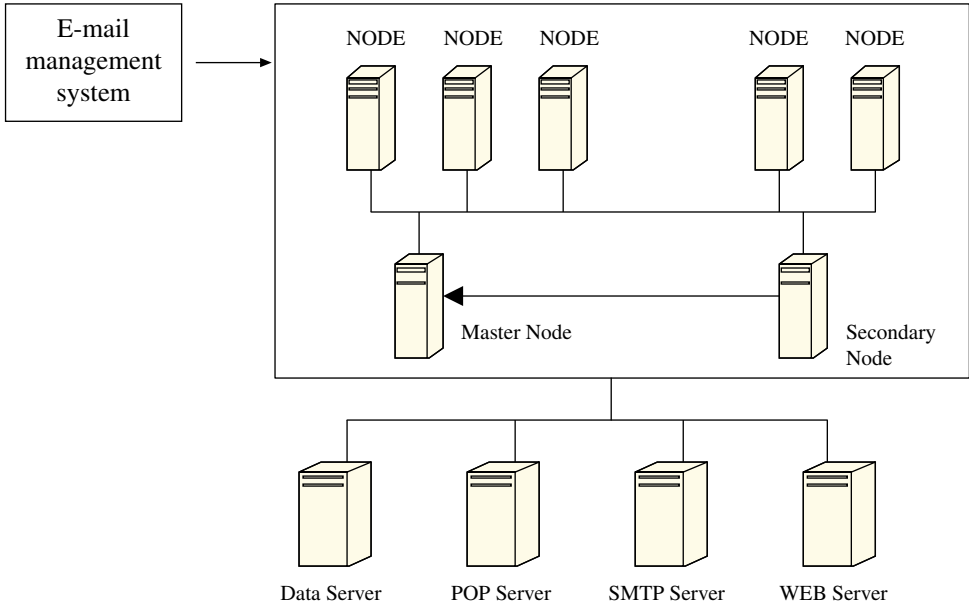
Unlike the traditional e-mail management system where e-mail capacity is limited to a server's hard drive space, the Group's large capacity e-mail system utilises a multi-nodes technology that can effectively link up multiple computer servers without sacrificing the speed of e-mail delivery services; thus, e-mail capacity can be adjusted automatically according to the demand of the e-mail services. Moreover, the Group's e-mail management system supports Chinese Internet addresses and can be linked with various communication terminal devices, such as telephone, fax, pager and mobile phone, to achieve optimal communication attainability. As at the Latest Practicable Date, the Group's large capacity e-mail system has served telecommunications operators in Chongqing and Zhejiang. For each of the three years ended 31st December, 2001, turnover generated from the large capacity e-mail system totaled nil, approximately RMB3.3 million and RMB0.2 million respectively.

GENERAL OVERVIEW OF THE GROUP

Developed and launched in November 1999, the Group's e-mail management system can effectively support up to 10 million e-mail accounts simultaneously.

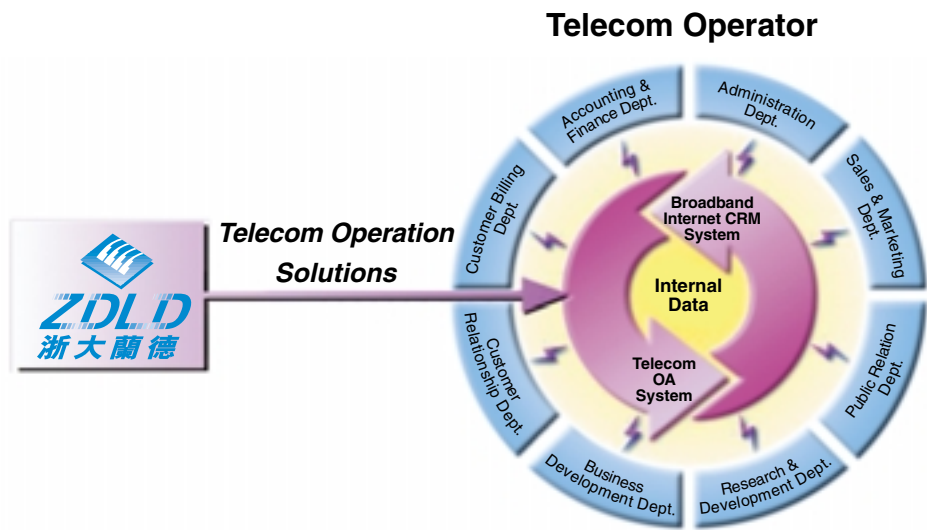


Linking Nodes Technology



Telecom operation solutions

Launched in early 2001, the Group’s telecom operation solutions are targeted towards enhancing operational efficiency within telecommunications companies and providing them with an integrated CRM solution that may further enhance the quality of their services through better understanding of the behaviors of wireless and Internet subscribers. The solutions are typically comprised of the sale of software, the sale of hardware and the provision of technical support services, which amounted to approximately 28.6%, 65.9% and 5.5% of the Group’s turnover generated from telecom operation solutions for the year ended 31st December, 2001. The solutions include a broadband Internet CRM system and a telecom office automation system.



1. Broadband Internet CRM solutions

Launched in February 2001, the Group’s broadband Internet CRM solutions enable ISPs to provide Internet subscribers with more personalised services through the practice of CRM. The solutions can be divided into four major systems, including a traffic monitoring system, broadband billing system, web content selection and extraction system and a customer support system.

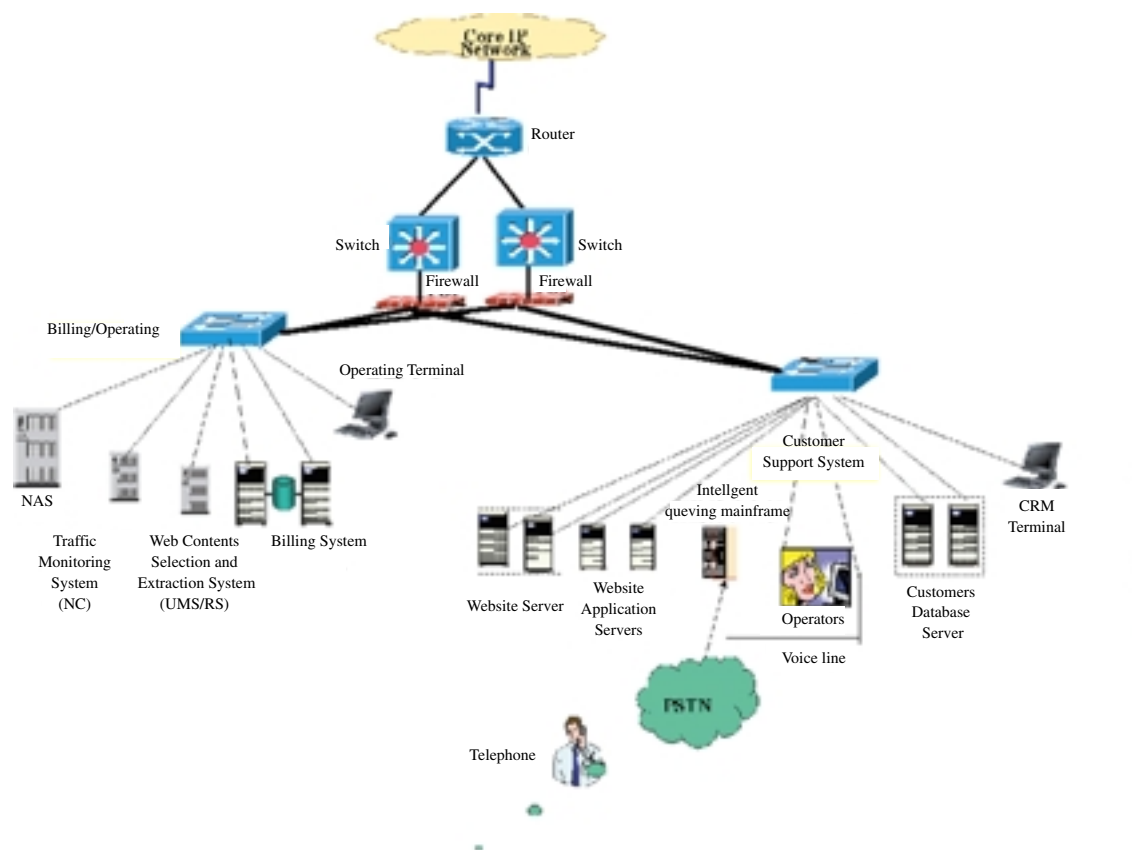
The traffic monitoring system monitors, traces and records subscribers’ activities on the Internet, such as the length of each visit at websites, the actions taken, the amount of data downloaded and uploaded and the type of Internet contents that interests the subscribers. The data collected may be utilised for conducting consumer behavioural analysis, thus enabling ISPs to take a more aggressive role in conducting relevant and effective marketing activities, ultimately leading to a more personalised customer service.

The broadband billing system is similar to the pay-per-view system that enables ISPs to charge Internet subscribers based on the type of visited contents and the amount of downloaded and uploaded data. The Directors believe that this type of usage-based fee structure will eventually replace the traditional time-based fee structure, where Internet subscribers may access the Internet at a fee more appropriately reflecting their usage.

GENERAL OVERVIEW OF THE GROUP

The web content selection and extraction system functions alongside with the broadband billing system, in which the former enables ISPs to offer Internet subscribers predetermined Internet content types, such as entertainment channels, news channels, sports channels, educational channels, travel channels, game channels and various other channels. The system enables ISPs to selectively block Internet contents that Internet subscribers do not subscribe to and extract relevant Internet contents for them.

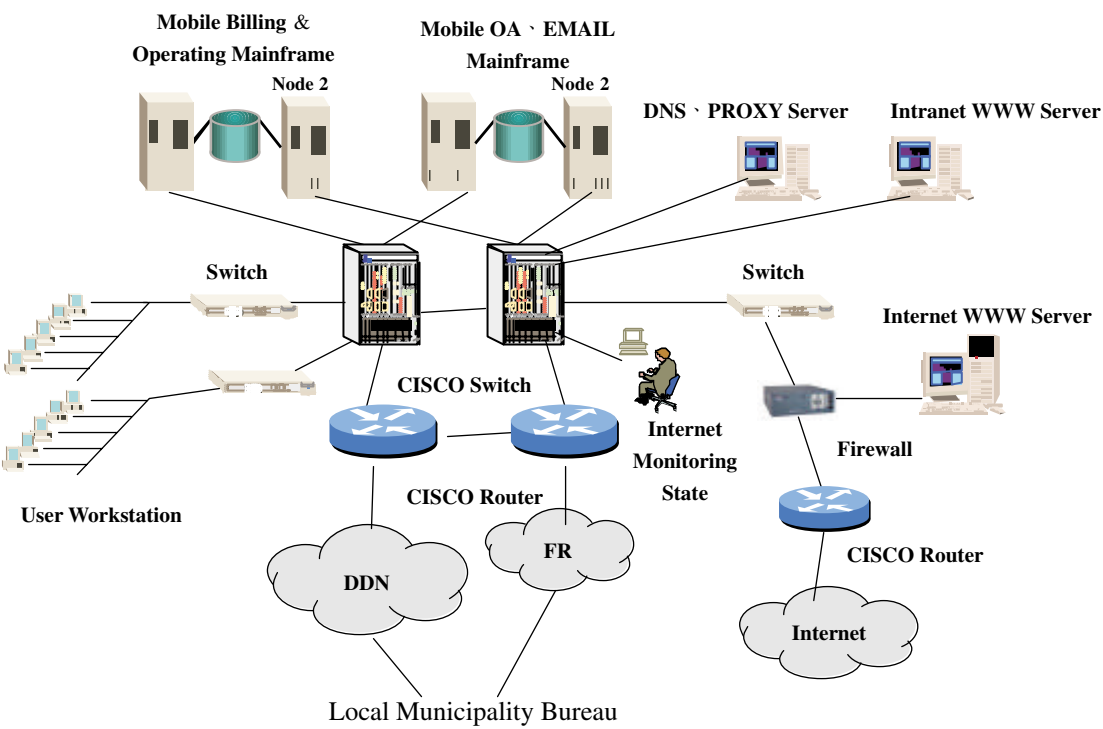
The customer support system provides ISPs and telecommunications operators with an effective and efficient medium to liaise with customers in respect of their needs. The system allows ISPs and telecommunications operators to extract customers' details, such as personal profiles and billing information, from the database servers with greater ease and that data can be manipulated to suit different departmental needs. Moreover, the system includes both an automated and manual response functions, where customers may communicate directly with ISPs and telecommunications operators via various communication platforms, such as the telephone network and the Internet. As at the Latest Practicable Date, the Group's broadband Internet CRM systems have been used by telecommunications operators in Chongqing and Zhejiang.



2. Telecom office automation system

Launched in May 2001, the Group’s telecom office automation system is a sophisticated telecommunications solution that links various types of computer servers and gateways together to enable the efficient and effective internal and external information flow within a company. The system is based on Lotus Domino/Notes, an OA middle-ware developed by IBM, in which the Group then re-programs the OA middle-ware to suit the telecommunications clients’ specific requirements, such as setting up personalized specifications, daily office applications, data retrieval services, e-secretarial services, work allocation lists, system maintenance services and an Intranet.

The Group’s telecom office automation system enables the efficient operation and data communication within a telecommunications company, in which it can link up databases from different departments, such as the accounting department, research and development department and sales and marketing department. Moreover, the system can also enable the practice of CRM, in which the system can analyse and categorise data collected from communication end-users. The data collected can then be transferred to the relevant departments for further analysis on consumer behaviors and for the development of effective marketing campaigns. As at the Latest Practicable Date, the Group’s telecom OA system has been used by telecommunications operators in Chongqing, Guangdong, Guizhou, Yunnan and Zhejiang.



TRADING OF HARDWARE

In May 2001, the Group commenced its business in the trading of hardware, which is a supplementary business of its focus line of business in the provision of telecommunications solutions. For the year ended 31st December, 2001, the turnover generated from the trading of hardware amounted to approximately RMB9.2 million, representing approximately 14.3% of the total turnover of the Group for that year. The primary objective of the Group in conducting the trading business is to provide value-added services to the telecommunications operators and to promote the Group's telecommunications solutions business to potential customers.

During the course of providing telecommunications solutions, the Group has established solid connections with major hardware suppliers. As part of its customer service and business promotion plans, the Group determines to make use of its advantages in the supplier network and sells networking hardware products, such as modems, to telecommunications operators. However, the Group has no intention to develop the trading business into a core business and takes only a passive role in the trading business and does not actively seek for trading customers. The hardware products are sold to the telecommunications operators, who are the end-users, through third party sub-distributors. Sales are initiated by the sub-distributors who acted as sourcing agent for a group of telecommunications operators. The customers will approach hardware-trading companies such as the independent sub-distributors. Upon receiving enough orders, the sub-distributors will approach the Group to leverage on the Group's relationship with hardware suppliers and obtain a more competitive price from the bulk purchase and the Group will then source the respective hardware products from its suppliers. The Group has assigned two staffs, a clerk from the purchasing department and a cashier from the finance department, in which to process the invoices when needed. The sale of hardware is on an indent basis and the Group does not keep any inventories of hardware for trading purposes.

The Group does not appoint any particular sub-distributors, as the trading of hardware is not an active line of the Group's business. Instead, the Group is approached by the sub-distributors. The Group has not entered into any subcontracting, sub-distribution or agency agreements with the direct customers of the trading business, who in turn sell, or "sub-distribute" the products to the end-users.

The Group enters into such trading transactions as it can provide valued-added service to the telecommunications operators at minimal transaction costs. As the sub-distributors have summarized the customers' needs for the Group, the Group does not have to serve every single customer in order to provide valued-added service but can achieve this goal by just dealing with one or two sub-distributors. By doing so, the operating costs (such as order processing costs and inventory management costs) and the financial cost (such as investment costs in trading inventories and credit risks) of providing valued-added services to customers can be significantly reduced. The Directors believe that by providing the value-added services to its customers, the Group may sustain its relationship with customers, while at the same time, expand the Group's business networks through its relationship with the sub-distributors.

BUSINESS MODEL

The telecommunications industry is a fast growing industry, in which the ability to adapt to the constant change and enhancement in demand often determines the success of a company. The Group, knowing this critical success factor, has focused on the development of its own proprietary standardized products that are flexible to meet its clients' specifications, in order to keep abreast of a more efficient implementation schedule.

GENERAL OVERVIEW OF THE GROUP

Other than general product standardization, the Group has established strategic alliances and business collaborations with a number of multinational companies such as IBM and CA, to expand its sale distribution network and to enhance brand awareness (for details, please refer to the paragraph headed “Strategic investors and alliances” in this prospectus).

As part of its telecommunications solutions business, the Group sells networking hardware products to telecommunication operators through third party sub-distributors. The Directors consider the trading business as part of its customer relation and business promotion plans. By conducting the trading business, the Group can provide value-added services to its existing customers and also make use of the sub-distributors’ business network to expand the Group’s business to potential customers.

In an attempt to capture market share effectively, the Group has structured a product implementation scheme, in which the Group’s telecommunications solution will be implemented at the clients’ location first and the contract amount of telecommunications solution project will be billed on a progress basis with the final billing issued after the final testing is satisfactorily completed and accepted by the customer.

In an attempt to lower expenses and to stay focused on its core business objectives in developing telecommunications software solutions, the Group has outsourced a portion of its non-core operations, such as the localisation of several of its wireless communication solutions and products in Anhui province, to outside third parties.

The Group quotes its products and services in RMB. All of the Group’s revenue is denominated in RMB. All payments by the clients are settled by cheques or remittances.

SALES AND MARKETING

The Group’s sales and marketing team is responsible for the promotion of the Group’s products and services to potential and existing clients and the building of the Group’s brand. The sales and marketing teams are usually divided into specialised product teams with expertise on a particular product. The Group divides its sales and marketing personnel into specialised teams to enhance the effectiveness in handling various clients and facilitates co-ordination with the product development teams.

As the telecommunications operators, such as China Unicom, China Mobile and China Telecom, are the Group’s major customers, the Directors believe that an effective marketing strategy is to engage in direct marketing and joint marketing with them. The Group’s direct marketing includes sending its sales and marketing staff to approach the telecommunications operators promoting the Group’s solutions and products. In regards to its existing customers, the Group will assess its customers’ operational needs, while at the time, promote the Group’s other solutions and products. In regards to joint marketing, both the Company and the telecommunications operators shall work together to develop and launch solutions and products and create new revenue streams.

In addition, the Group promotes its business through participation in various international trade shows and conferences, such as Shanghai International Telecommunications Exhibition, Zhejiang Province Software Product Conference, The 12th China Software Conference, National Wireless Communication Conference and National Call Center Conference.

GENERAL OVERVIEW OF THE GROUP

Seminars and technical briefings are usually held once a year and once a month, respectively, to raise clients' awareness of the latest developments and the needs for software support. The Group also publishes articles about its products and services usually once or twice per year in certain telecommunications journals.

RESEARCH AND DEVELOPMENT

The Group has placed significant emphasis on the R&D of new and existing products, in order to improve the Group's telecommunications solutions. The R&D department is responsible for developing the Group's new products and technologies as well as working on upgrades and product improvements with the following objectives:

- studying and adopting the latest technological development in telecommunications solutions; and
- collaborating with Zhejiang University regarding the timely commercialisation of its academic achievements pursuant to the Research Center jointly established by the Group and Zhejiang University.

As of the Latest Practicable Date, the R&D department has a total of 17 full time staff and 32 part-time staff. Among the full time staff, 6 are responsible for software design, 5 are responsible for software programming, 3 are responsible for system design and configuration, and 3 are responsible for testing and quality control. The Group's R&D department is headed by Chen Chun, to structure the overall strategy and management of the department.

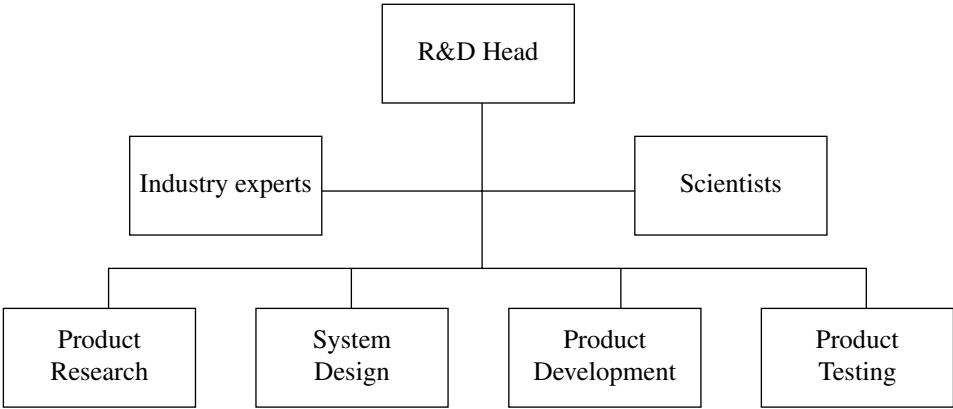
The R&D budget is assigned each year based on criteria such as project nature, development requirements, requirements and specifications. For each of the three years ended 31st December, 2001, the Group incurred R&D expenses of approximately RMB0.5 million, RMB1.5 million and RMB1.0 million respectively. The staff costs included in the R&D expenses for each of the three years ended 31st December, 2001 amounted to approximately RMB0.2 million, RMB0.2 million and RMB0.7 million respectively.

The Company and Zhejiang University established the Research Center on 24th September, 2001 to conduct R&D on telecommunications solutions. The Research Center is located at Zhejiang University's premises and at the Company's premises, with a total of 49 persons as of the Latest Practicable Date, of which 32 of the personnel are from Zhejiang University, while 17 are from the Company. The Research Center serves as an alpha testing facility for the Company to experiment and test existing and potential telecommunications solutions as instructed by the R&D department of the Company, with the aim of enhancing the quality and efficiency of existing products and nurturing advanced telecommunications technologies. Furthermore, the Research Center also serves as a training platform for Zhejiang University students. On the other hand, the R&D department of the Company will mainly be responsible for conducting initial market testing researches on potential products and solutions and commercialising those products and solutions during the final stages of the R&D process with the aim of meeting market demands.

GENERAL OVERVIEW OF THE GROUP

Under the agreement, the Research Center is headed by Chen Chun, an executive Director of the Company, and comprised of technical personnel from both the Company and Zhejiang University. Chen Chun is mainly responsible for the supervision of the R&D functionalities from the Zhejiang University location. Other than Chen Chun, other Zhejiang University professors also supervise the R&D functionalities at the Research Center while Chen Chun is absent. Chen Ping is responsible for the supervision of the R&D functionalities from the Company’s location. The Research Center’s staff comprised of Zhejiang University’s professors, graduates and existing students. The involvement of Zhejiang University is to enable its students to practise at a real-life testing facilities. Moreover, the Company agrees to provide funding to the Research Center of not less than RMB1 million per annum as R&D expenditures for a period of five years starting 1st January, 2002. Any software developed through the Research Center shall be jointly owned by both the Company and Zhejiang University; however, the Company is entitled to all profit attributed to the use of those software. In addition to the Research Center, the Company also provides internship opportunities for the post-graduates of the Department of Computer Science and Technology of Zhejiang University. As at the Latest Practicable Date, over 31 post-graduates of Zhejiang University have participated in the Group’s internship program and the development of a number of key software projects.

R&D Department Organisation Chart



The Group’s R&D department plans to launch new products are summarised under the section “Statement of Business Objectives” to this prospectus.

CUSTOMERS

The major customers of the Group consist nation-wide telecommunications operators, such as China Unicom, China Mobile, China Telecom, Hangzhou Saier Company (杭州塞爾公司) and Ningbo Huaneng Communication Development Co., Ltd. (寧波華能通信發展有限公司), in which the Group has established business relationships with them since 1999, 2001, 1997, 2001 and 2001, respectively. As of the Latest Practicable Date, the Group has provided services to China Unicom, China Mobile and China Telecom in 15 provinces, including Anhui, Fujian, Gansu, Guangdong, Guangxi, Henan, Hubei, Jiangxi, Liaoning, Shaanxi, Shandong, Shanxi, Sichuan, Yunnan and Zhejiang.

Market Coverage of the Group's solutions in the PRC



GENERAL OVERVIEW OF THE GROUP

An analysis of the turnover by geographical locations for each of the three years ended 31st December, 2001 is set out as follows:

	Year ended 31st December,		
	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Anhui	17	—	8,466
Beijing	—	—	103
Chongqing	—	—	900
Fujian	2,011	4,954	4,157
Gansu	—	1,839	—
Guangdong	—	112	857
Guangxi	—	—	4,985
Heilongjiang	—	321	214
Henan	—	—	367
Hubei	—	—	70
Jiangxi	—	—	152
Liaoning	—	321	2,897
Shaanxi	—	2,499	99
Shandong	299	—	—
Shanghai	—	262	626
Shanxi	300	—	11,365
Sichuan	772	4,563	4,171
Xinjiang	80	783	300
Yunnan	—	—	5,735
Zhejiang	<u>1,142</u>	<u>7,497</u>	<u>18,735</u>
	<u>4,621</u>	<u>23,151</u>	<u>64,199</u>

For each of the three years ended 31st December, 2001, the five largest customers of the Group accounted for approximately 92.2%, 96.2% and 83.6% of the Group's turnover respectively. The Group's single largest customer, China Unicom, accounted for approximately 43.8%, 75.1% and 49.7% of the Group's turnover respectively during the same financial years. None of the Directors, their associates or any shareholders of the Group, own more than 5% of the paid-in capital of the Company has any interests in any of the five largest customers of the Group for each of the three years ended 31st December, 2001.

Customers are typically billed on a progressive basis with all settlements in Renminbi. Approximately 20% of the total contract amount will be billed as advance payment upon signing of contract. Approximately 40% will be billed upon installation of hardware. Approximately 35% will be billed upon final testing of the whole system and approximately 5% will be billed after one year from final testing as retention money on quality assurance. The length of each project varies based on the size and complexity of the solutions; however, the period usually ranges from three to twelve months. As at 31st December, 1999, 2000 and 2001, there was no material retention money included in the trade receivable balances. The mode of settlement by customers includes telegraphic transfers, bank drafts, cheques and bills.

GENERAL OVERVIEW OF THE GROUP

Under normal circumstances, the Group generally gives credit terms of around 7 days to 20 days to its clients, for each progress billing based on certain criteria, such as the length of business relationship with that particular client, its payment history, background and financial strength. The credit terms and limits for each client have to be reviewed and approved by one of the executive Directors. The aging status of debtors and the situation of outstanding trade receivables will be monitored by the finance department where the Group shall assign staff to keeps close contact with the customers in order to resolve any possible issues and to recover the debts. The chief financial officer will liaise with the customer service manager regarding any outstanding debts exceeding 14 days, investigating the reasons of delay in payment and communicating with the customers on outstanding payment. Outstanding debts exceeding 30 days will be brought to the attention of the executive Directors for further actions. Most of the Group's clients are major telecommunications operators based in the PRC and have maintained long-term business relationships with the Group.

The Group provided bad debt provision based on the following policy:

Aging of debts	Provision rate
Not exceeding one year	0%
More than one year but not exceeding two years	30%
More than two years but not exceeding three years	50%
More than three years	100%

Since 2000, the Group has expanded its telecommunications solutions to include telecom operations. The collection period for receivables from the customers of telecom operation solutions is comparatively longer than that from customers of data communication solutions. Accordingly, the Group incurred increasingly more accounts receivable for the remaining Relevant Periods. As at 31st December, 1999, 2000 and 2001, the Group's accounts receivable, after netting off provisions for doubtful accounts, amounted to approximately RMB490,000, RMB2,253,000 and RMB32,042,000 respectively, representing approximately 3.3%, 10.0% and 49.4% of the Group's total current assets as at the respective balance sheet dates. The subsequent settlement of accounts receivable up to 28th February, 2002 amounted to approximately RMB10,156,000, which related mostly to debts aged within three months. The aging analysis of the outstanding accounts receivable for the year ended 31st December, 2001 after accounted for the provisions and subsequent settlement up to 28th February, 2002 is set out as follows:

	<i>RMB'000</i>
Not exceeding one year	20,311
More than one year but not exceeding two years	1,575
More than two years but not exceeding three years	—
More than three years	—
	<u>21,886</u>

The provision for doubtful accounts made by the Group during each of the three years ended 31st December, 2001 amounted to approximately RMB203,000, nil and approximately RMB521,000 respectively.

GENERAL OVERVIEW OF THE GROUP

As a part of its telecommunications solutions business, the Group also sells networking hardware products, such as modems, to telecommunication operators through third party sub-distributors. Sales are initiated by the sub-distributors who act as sourcing agents for a bundle of telecommunications operators. Pursuant to the needs of the sub-distributors, the Group sources the respective hardware products from its suppliers, usually at competitive prices due to the Group's good relationship with the suppliers. The end-users include existing and potential customers. The trading business is part of the Group's customer relation and business promotion plans. Through the trading business, the Group is able to achieve a win-win position for itself and its customers — the Group is able to provide value-added services to existing customers and also make use of the sub-distributors' business networks to expand the Group's business at low transaction costs, while its customers can purchase hardware equipment at low costs. There are no formal agreements made between the sub-distributors and the Group. Typically, the Group will bill the sub-distributors when the respective hardware products are delivered to the sub-distributors. The Group will usually grant a credit period of one month to sub-distributors. There are no specific agreements on sale returns. Under normal circumstances, the sub-distributors are allowed to return to the Group any defective goods. During the Relevant Periods, there were no sales returns of hardware products. As at 31st December, 2001, accounts receivable from sub-distributors amounted to approximately RMB2,388,000 and aged within three months. The subsequent settlement of accounts receivable from sub-distributors up to 28th February, 2002 amounted to approximately RMB1,107,000.

SUPPLIERS

The suppliers of the Group consist of third party providers of software and hardware used in the Group's data communication systems. The Group does not rely on any single supplier to supply any of the Group's products. For each of the three years ended 31st December, 2001, the five largest suppliers of the Group accounted for approximately 71.0%, 65.6% and 47.3% of the Group's direct purchases respectively. The Group's single largest supplier accounted for approximately 29.0%, 27.9% and 15.2% of the Group's direct purchases respectively during the same financial years. Except for Qware Science, which accounted for nil, nil and approximately 15.2% of the Group's direct purchases for each of the three years ended 31st December, 2001 respectively, none of the Directors, their associates or any shareholders of the Group who to the knowledge of the Directors, own more than 5% of the paid-in capital of the Company has any interests in any of the five largest suppliers of the Group for each of the three years ended 31st December, 2001.

The Group is normally granted a credit period of 30 days for its supplies and normally settles its purchases by cheques and remittances. All of the Group's purchases are settled in RMB.

Normally approximately 20% of the total contract amount will be billed as advance payment upon signing of contract. Approximately 50% of the down payment received from the customer will be paid to the supplier as purchase deposit for the hardware required for the project. Normally, down payment required by the supplier range from 10% to 50% of the total purchase amount depending on the type of hardware purchased by the Group. When the hardware is shipped and received by the Group, the supplier will bill the Group and grants a credit period of 30 days. When the hardware is installed, the Group will bill the customer for a further 40% of the total contract sum and grants to the customer credit terms of 7 days to 20 days. Under normal circumstances, the total 60% billed will represent all the hardware cost and the time lag between settlement of account receivables and payables is little. This part of the project will not normally create any adverse effect on the cash flow of the Group. For the rest of the project, it mainly involves staff costs for software development and provision of technical support service, which is not so significant when comparing with the hardware

GENERAL OVERVIEW OF THE GROUP

costs. The time lag between settlement of account receivables and payables in respect of this second part of the project will not normally cause significant burden on the cash flow of the Group. Any temporary insufficiency in working capital will be financed by short term bank loans. The Group did not experience any problem on working capital during the Relevant Periods.

Under normal circumstances, all the Group's purchases are backed by signed project contracts. The purchasing department liaises with the respective project managers to select suppliers based on the specification of the equipment or software, as the case may be needed and the quotations submitted by the suppliers. The purchasing department then places orders with the selected suppliers. Due to the nature of the Group's business, the inventories kept represents hardware and software installed at customers' premises during the course of the projects. There are only minimal inventories kept at the Group's own warehouse, which serves as a temporary storage for the project hardware and software. Under normal circumstances, the Group will not keep any inventory that is beyond the requirement of the project contracts or not covered by a project contract. Considering the business nature of the Group, the Group adopts no provision policy for its inventories.

The Group's suppliers provide guarantees on the hardware products ranging from one year to three years, depending on the complexity of the hardware products. In any case that the inventories were damaged at the customers' premises before the completion of the project, the suppliers will be responsible for the repair and maintenance, subject to the terms written on the guarantees. However, any other natural caused damage or damage resulted from the customers' mishandlings to the inventories at the customers' premises, which are not mentioned in the guarantee before completion of the projects, will be subjected to negotiation between the two parties.

STRATEGIC ALLIANCES

The Directors consider rapid business expansion to be one of the most important business strategies leading to the Group's financial success. Subsequently, the Group has established strategic alliances with related industry players to expand its sales and distribution network, conduct cross-promotional activities and practice bundling sales activities. The Group's strategic partners include CA, IBM and Qware Science.

CA

The Company signed an agreement with CA in May 2001 to jointly promote each other's brands, solutions and products, particularly the telecom OA solutions and CRM solutions. Under the agreement, the two parties will conduct cross-promotional activities. CA will recommend implementing the Group's OA software on its OA middle-ware such as the Internet network management and network safety products when they approach the telecommunications operators; whereas, the Group will recommend CA's CRM middle-ware when they approach the telecommunications operators. The Group will be responsible for the system integration of the solution and the telecommunications operators will pay the Group for the solutions provided in return. There is no express term about the condition for renewal of the agreement or the period of notice of termination in the agreement. This is an open ended agreement.

IBM

The business collaboration between IBM and the Company started in April 2001 to jointly promote each other's brands, solutions and products, particularly the telecom OA solutions and wireless value-added systems. Under the collaboration, the Group provides IBM with a software localisation service for IBM's telecommunications products in the PRC, while IBM supplies the Company with an efficient source of telecom OA middle-ware. There is no written agreement of this collaboration, expressed term of renewal or notice period of termination.

Qware Science

The business collaboration between Qware Science and the Company started in February 2001, to jointly promote each other's brands, solutions and products, particularly the CRM solutions. Qware Science is a well-known hardware distributor and system integrator in Zhejiang province. Under the collaboration, the two parties will conduct bundled cross-selling activities. Qware Science will implement the Group's CRM software on its CRM middle-ware. No overall written co-operation agreement is signed between the two parties other than an agreement, which has not stated the condition for renewal of the agreement, and the period for the notice of termination. The business collaboration between Qware Science and the Company is not binding.

COMPETITION

The Group operates in a fast growing telecommunications industry where competition in providing telecommunications solutions is keen. However, the Directors believe the entry barriers for the telecommunications solutions industry in the PRC are relatively high, in terms of the level of familiarity of the PRC telecommunications industry and the development of advanced and specialised telecommunications software solutions; thus, the Group's principal competitors should be limited. Moreover, strong relationships with telecommunications operators are often necessary to lobby for an invitation to a telecommunications project bid, where telecommunications operators would normally base their selections on the solutions provider's telecommunications expertise, its market network and its level of utilisation in advanced technology.

Furthermore, the Directors believe that the Group has an advantageous position over its competitors given its thorough understanding of the telecommunications operators' demands and its ability in providing advanced telecommunications solutions. The Company has been a pioneer in providing advanced telecommunications solutions, in which it is one of the first providers of wireless value-added solutions in the PRC. Despite the fact of the PRC's recent entry into the WTO, which may attract a group of foreign competitors to enter in the PRC market, the Directors believe that these foreign competitors will not pose a significant threat to the Group as they are not familiar with the PRC market. Instead, the Directors believe the PRC's recent entry into the WTO may enhance the Group's role in forming strategic alliances with foreign telecommunications solutions providers, thus the qualities of the solutions provided to telecommunications operators may actually be improved.

YEAR ENDED 31ST DECEMBER, 1999

During the year ended 31st December, 1999, the Group enhanced the quality of its existing data communication solutions and products, including the wireless communication system, wireless value-added system and data switch platform. The Group had also researched and successfully launched its large capacity e-mail system. Geographically, the Group's business has expanded outside of Fujian and Zhejiang to 7 other provinces in the PRC.

Key projects engagements

The Group's key projects during the year ended 31st December, 1999 can be summarised as follows:

Unit	Project descriptions
Data communication solutions	— upgraded wireless data transmission system — upgraded wireless communication system — upgraded data switch platform — upgraded wireless value-added platform — researched and launched large capacity e-mail system

Research and development

The Group collaborated with Zhejiang University to conduct research on various data communication solutions. During the period, the Group focused its R&D activities on wireless communication systems and wireless value-added systems. Based on the data switch platform successfully developed by the Group in 1998, the Group managed to upgrade its data switch platform and wireless value-added systems to enable Internet-based communication capability, enabling the integration of an interlinked communication platform among data services systems, data communication network, the Internet and telecommunications network.

Sales and marketing

The Group commenced a major marketing campaign throughout the PRC by conducting a direct sales strategy and participating in telecommunications exhibitions and conferences, such as the Zhejiang Hi-Tech Exhibition, to promote the Group's telecommunications solutions. The Group's data communication solutions have successfully penetrated into the telecommunications service network in Fujian, Gansu, Shandong, Shanxi, Sichuan and Zhejiang. The Group's market penetration is mostly obtained by winning a telecommunications project bid, where telecommunications operators will normally select one solutions provider for the whole province that they cover.

Strategic alliances

The Group has maintained a close relationship with Zhejiang University to develop and jointly promote advanced telecommunications technology, such as the functional enhancement of the Group's wireless communication system, data switch platform and wireless value-added system.

ACTIVE BUSINESS PURSUITS

Intellectual property protection

The Group is the registered holder of the software copyrights specified below (for details, please refer to the sub-paragraph headed “Intellectual property rights of the Group” under the paragraph headed “Further Information about the Business” in Appendix VI to this prospectus):

Name of software	Registration No.	Date of registration	Protection Period
198 National Hi-speed Network Artificial Supplement System (全國高速網人工輔助席系統 V2.0)	990532	13th May, 1998	50 years
LAND RPS Basic Wireless Paging System (基本無線尋呼系統 V3.12)	990535	5th September, 1998	50 years
Wireless Paging Information Platform System (無線尋呼信息平台系統 V2.0)	990536	30th October, 1998	50 years

The Group is the registrant of the domain name specified below:

Domain name	Date of registration
Landpage.com.cn	22nd December, 1998

Deployment of human resources

For the year ended 31st December, 1999, the Group employed a total of 68 employees. The following table provides a breakdown of their functions:

Sales and marketing	4
Products and software development	40
Customers services and technical support	4
Research and development	10
General administration, finance and accounting	10
Total	<u>68</u>

Funding arrangements

For the year ended 31st December, 1999, the Group’s operations were principally funded through internal generated resources, which included paid-up capital and retained earnings brought forward from prior financial years.

Financial performance

For the year ended 31st December, 1999, the Group recorded a turnover of approximately RMB4.6 million and a net loss of approximately RMB1.4 million. Please refer to the summary of the financial performances of the Group set out in the paragraphs headed “Trading record” and “Management analysis of operating results” in the section headed “Financial information” to this prospectus for further details.

YEAR ENDED 31ST DECEMBER, 2000

By the end of 2000, the Group had become one of the leading providers of wireless communication systems in the PRC. In order to remain competitive, the Group has continued to upgrade its existing data communication solutions to meet customers’ demands. Moreover, the Group had commenced the R&D of its telecom operation solutions, which include the telecom office automation system and the broadband Internet CRM system. The Group has also established a subsidiary, Chengdu Land, on 23rd November, 2000, to focus on expanding its data communication solutions market to the western region of the PRC.

Key projects engagement

The Group’s key projects during the year ended 31st December, 2000 can be summarised as follows:

Unit	Project descriptions
Data communication solutions	— upgraded wireless communication system — upgraded data switch platform — upgraded wireless value-added system — upgraded large capacity e-mail system
Telecom operation solutions	— researched on telecom office automation system — researched on broadband Internet CRM system

Research and development

The Group has continued to upgrade its data communication solutions. The Group has expanded its scope of R&D on products and solutions specifically tailored towards enhancing efficiency in the internal operations of telecommunications operators. The R&D surrounds the telecom office automation system and the broadband Internet CRM system.

Sales and marketing

The Group’s data communication solutions have successfully penetrated into several new telecommunications markets, including Anhui, Liaoning and Shanghai. In particular, the Directors believe that there was enormous market demand for communication products and solutions in the southwestern region of the PRC and the Company has established a 55%-owned subsidiary, Chengdu Land, to serve as the western region main office. Taking advantage of the rapid nationwide expansion,

the Group managed to establish a joint-promotional alliances with Shenzhen Huawei and Qware Science to jointly promote each other's brands, solutions and products and practice cross-bundled selling on the wireless communication system, data switch platform and broadband Internet CRM system.

In order to establish a stronger market presence nationwide, the Group also participates in a number of international telecommunications industry conventions and exhibitions in Hangzhou and Shanghai and advertises in several major Chinese telecommunications journals, such as China Post & Telecommunications Paper and China Computer Paper.

Strategic alliances

The Group has established strategic alliance and business collaboration with Shenzhen Huawei and Qware Science to jointly promote each other's brands, solutions and products and practice bundling sales in wireless communication system, data switch platform and broadband Internet CRM system. The Group has continued its relationship with Zhejiang University for technical support and R&D of advanced telecommunications solutions.

Intellectual property protection

The Group registered the additional software copyrights specified below (for details, please refer to the sub-paragraph headed "Intellectual Property Rights of the Group" under the paragraph headed "Further Information about the Business" in Appendix IV to this prospectus).

Name of software	Registration no.	Date of registration
1. Large-scaled Wireless Information Dissemination Control System (大型無線信息發佈控制系統)	2001SR4119	25th August, 2000
2. Comprehensive Information Center System (綜合信息中心系統)	2001SR4120	20th October, 2000

Deployment of human resources

For the year ended 31st December, 2000, the Group employed a total of 78 employees. The following table provides a breakdown of their functions:

Sales and marketing	6
Products and software development	42
Customers services and technical support	6
Research and development	12
General administration, finance and accounting	12
Total	78

Funding arrangements

The Group successfully attracted strategic funds totaling RMB6 million from Qware Science and Beijing Guoheng, amounting to RMB4 million and RMB2 million, respectively. Qware Science later transferred its part of the strategic funds to Zhejiang Innovation.

Financial performance

For the year ended 31st December, 2000, the Group recorded a turnover of approximately RMB23.2 million and a net profit of approximately RMB1.8 million. Please refer to the summary of the financial performances of the Group set out in the paragraphs headed “Trading record” and “Management analysis of operating results” in the section headed “Financial information” to this prospectus for further details.

YEAR ENDED 31ST DECEMBER, 2001

In 2001, the Group has continued to upgrade its existing data communication solutions to make it compatible with various communication network, such as the Internet, SMS, mobile and fixed-line. The Group has also launched its telecom operation solutions, which includes the telecom office automation system and the broadband Internet CRM system. Moreover, the Group invited three strategic investors, Beijing Guoheng, Qware Science and Yu Qiang, into the management for equity financing and market expansion.

Key projects engagement

The Group’s key projects during the year ended 31st December, 2001 can be summarised as follows:

Unit	Project descriptions
Data communication solutions	— upgraded wireless communication system — upgraded data switch platform — upgraded wireless communication system — upgraded large capacity e-mail system
Telecom operation solutions	— launched broadband Internet CRM system — launched telecom office automation system

Research and development

The Group continued to conduct research and seek improvement on various data communication solutions, including the wireless communication system, wireless value-added system, data switch platform and large capacity e-mail system. In particular, the Group has commenced the R&D on a unified telecommunications management system that is targeted at linking up the wireless and broadband Internet networks.

Sales and marketing

The Group established a joint alliance with Shenzhen Huawei to promote its call center solutions. During the same period, the Group also placed advertisements in several professional journals and magazines, such as Computer World and China Computer Paper, to promote its products and solutions. Moreover, the Group has organised a nationwide wireless communication conference in Hangzhou and has participated in the National Call Center Conference in Beijing to achieve a stronger market presence.

During the period, the Group's telecommunications solutions have successfully penetrated into the telecommunications service network in Yunnan, Henan, Guangdong, Jiangxi and Guangxi. The Group's market penetration is mostly obtained by winning a telecommunications project bid, where telecommunications operators will normally select one solutions provider for the whole province that they cover.

Strategic alliances

The Group has established business collaborations and strategic alliances with IBM and CA to jointly promote each other's brands, solutions and products, in the telecom OA system and the broadband Internet CRM system. CA would conduct bundled cross-selling activities with the Group and would implement the Group's OA software on its OA middle-ware particularly on the Internet network management and network safety products and the Group's CRM software on its CRM middle-ware in Internet management. IBM would conduct bundled cross-selling activities with the Group and supply the Group with telecom OA middle-ware.

Intellectual property protection

The Group registered the additional software copyrights specified below (for details, please refer to the sub-paragraph headed "Intellectual property rights of the Group" under the paragraph headed "Further information about the business" in Appendix VI to this prospectus):

Name of software	Registration no.	Date of registration
1. Broad-band Network Fee-charging System (based on processed information) (基於流量的寬帶網計費系統 V1.0)	2001SR3918	2nd June, 2001
2. Large-scaled Broad-band Intelligence Operating System (大型寬帶智能辦公系統)	2001SR3917	30th June, 2001
3. Large-capacity Distributed Electronic Mailing System (大容量分佈式電子郵件系統 V1.2.4)	2001SR3919	30th June, 2001

ACTIVE BUSINESS PURSUITS

The Group registered the additional domain names specified below:

Domain name	Date of registration
zdlande.com	2nd August, 2001
zdland.com	2nd August, 2001
浙大蘭德.com	2nd August, 2001

The Group has applied to the PRC Trademarks Office to register the following trademarks, the registrations of which have not yet been granted:

Name of applicant	Mark	Class	Date of application
Hangzhou Land	浙大蘭德	42	20th August, 2001
Hangzhou Land		42	20th August, 2001
Hangzhou Land		42	20th August, 2001

Deployment of human resources

For the year ended 31st December, 2001, the Group employed a total of 155 employees, of which 124 of them are full time employees and 31 of them are part time employees. The following table provides a breakdown of their functions:

Products and software development	67
Research and development	46
General administration, finance and accounting	18
Sales and marketing	13
Customers services and technical support	11
Total	<u>155</u>

An analysis of staff movement in 2001 is set out as follows:

Month	Increase in number of staff
January	2
February	9
March	6
April	6
May	7
June	6
July	19
August	5
September	6
October	3
November	3
December	5
	<u>77</u>

The increase in salary in 2001 as a result of the additional staff amounted to approximately RMB620,000, representing approximately 33.4% of total staff costs for 2001, approximately 6.4% of total operating expenses for 2001 or approximately 10.9% of the total increment in operating expenses in 2001. The Directors consider that the increase in salary due to staff addition is reasonable to the Group's scale of operation.

Funding arrangements

For the year ended 31st December, 2001, the Group successfully attracted strategic funds totalling RMB11.5 million from Qware Science, Beijing Guoheng and Yu Qiang, amounting to RMB1 million, RMB5.5 million and RMB5 million respectively. Qware Science and Yu Qiang later transferred their respective part of the strategic funds to Zhejiang Innovation and Zhejiang Qware respectively. During the year, the Group also borrowed an aggregate of RMB20 million in bank loans.

Financial performance

For the year ended 31st December, 2001, the Group recorded a turnover of approximately RMB64.2 million and a net profit of approximately RMB14.8 million. Please refer to the summary of the financial performances of the Group set out in the paragraphs headed "Trading Record" and "Management Analysis of Operating Results" in the section headed "Financial Information" to this prospectus for further details.

FROM 1ST JANUARY, 2002 TO LPD

Key projects engagement

The Group's key projects during the two months ended 28th February, 2002 can be summarized as follows:

Unit	Project descriptions
Data communication solutions	— upgrading wireless communication system — upgrading large capacity e-mail system — developing new wireless value-added system
Telecom operation solutions	— researching wireless telecom OA system — upgrading broadband Internet CRM system

Research and development

The Group has been assisting China Unicom in the upgrading of its wireless communication system in Zhejiang province, while at the same time continued to fine-tune its large capacity e-mail system and conduct research on new wireless value-added systems, wireless telecom OA system and broadband Internet CRM system, such as SMS and Internet billing systems.

Sales and marketing

The Group has been undergoing restructuring in its sales and marketing department, in which it has divided the department into specialized product teams. Amid the growing demand for the Group's solutions and products, regional sales offices have been established and the Group has been actively seeking new strategic partnerships in conducting joint promotional activities.

ACTIVE BUSINESS PURSUITS

Strategic alliances

The Group has been actively seeking new strategic partnerships in conducting joint promotional activities and consolidating sales force for the strengthening of the business contract negotiation terms.

Intellectual property protection

The Group did not register any additional intellectual property during this period.

Deployment of human resources

As at the Latest Practicable Date, the Group employed a total of 187 employees, of which 155 of them are full time employees and 32 of them are part time employees. The following table provides a breakdown of their functions:

Products and software development	85
Research and development	49
General administration, finance and accounting	23
Sales and marketing	18
Customers services and technical support	<u>12</u>
Total	<u><u>187</u></u>

Funding arrangements

The Group did not seek any new funding during the two months period ended 28th February, 2002.

Financial performance

For the two months ended 28th February, 2002, the Group recorded a turnover of approximately RMB12.1 million and a net profit of approximately RMB1.3 million.

STATEMENT OF BUSINESS OBJECTIVES

OVERALL BUSINESS OBJECTIVES

The Group's overall business objective is to continue enhancing the qualities of its existing solutions and products and conducting R&D on advanced telecommunications solutions, in order to create new revenue-generating channels for both the Group and the telecommunications operators. In particular, the Group plans to expand its R&D on a wide range of wireless value-added systems to support the growing demand for more sophisticated telecommunications solutions. Moreover, the Group aims to build an efficient sales channel and national distribution network through strategic alliances, investments and acquisitions. The Group also aims to build the  brand as one of the leading telecommunications solutions provider in the PRC. The Group will continue to develop its system integration businesses and to expand its customer base.

BASES AND ASSUMPTIONS

The Directors have assessed the market potential, identified the Group's statement of active business pursuit and formulated the proposed strategies to achieve the Group's business objectives on the bases of anticipated market demand and the future growth of its products based on the Directors' experience and knowledge. The Directors have made the following principal assumptions in making such assessment and formulation:

1. there will be no material changes in the bases or rates of taxation in the PRC in which the Group operates or its subsidiaries are incorporated;
2. there will be no adverse material change in the information technology and software market in general in the PRC;
3. there will be continuing growth of investment in computer system and communications network in the PRC and strong demand for telecommunications solutions in the future;
4. there will be no change in the relationship between the Group and Zhejiang University; and
5. there will be no change in the status of licences and permits obtained by the Group.

BUSINESS OBJECTIVES AND STRATEGIES

In an attempt to become the leading telecommunications solutions providers in the PRC, the Group will continue to upgrade its solutions and products to keep abreast of the growing demand for advanced telecommunications technologies, create strategic alliances and conduct related investments, maintain its relationship with Zhejiang University and expand its sales and marketing network.

Compliance with evolving standards

The Group focuses on the R&D of advanced software and system integration for telecommunications operators in the PRC. The Group keeps abreast of domestic market trends and work closely with its customers to identify the market needs and define solution specifications early in the development process. This approach results in a thorough understanding of the end-user's requirements prior to the commencement of the design process. The Group believes that its telecommunications solutions will continue to meet the requirements of telecommunications operators in the PRC.

STATEMENT OF BUSINESS OBJECTIVES

Creating strategic alliances and conducting related investment

The Group will continue to create strategic alliances with domestic and multinational companies to enhance its brand awareness, practice joint sales and cross-promotional activities and expand distribution capabilities. The Group will also consider investing in or acquiring telecommunications-related companies that may further enhance the overall value of the Group.

Maintaining relationship with Zhejiang University

The Directors believe that the ability to keep abreast of advanced technologies and market trends of telecommunications solutions are the keys to the Group's financial success. Hence, the Directors intend to maintain the Group's well established relationship with Zhejiang University and to access its abundant supply of technical expertise. The Group works closely with the Computer Science and Technology Department of Zhejiang University through the Research Center, jointly established with Zhejiang University on 24th September, 2001. The Research Center serves as an alpha testing facility for the Company to experiment and test existing and potential telecommunications solutions as instructed by the R&D department of the Company, with the aim of enhancing the quality and efficiency of existing products and nurturing advanced telecommunications technologies.

Expanding sales and marketing network

The Group intends to increase its sales network in the PRC by expanding its sales force and marketing programs. The Group's sales force and engineers are knowledgeable in a wide variety of telecommunications platform and software environments and are able to provide related consultancy services to the Group's customers. The sales and marketing programs include: (a) extending its geographical reach and expanding its distribution network in the PRC by setting up representative offices; (b) expanding the Group's marketing department; (c) participating in major exhibitions and conducting seminars and trade shows with a view to enhancing its brand awareness; (d) launching extensive advertising campaigns; and (e) conducting joint-sales and cross-promotional activities with strategic alliances.

MARKET POTENTIALS

Due to the strong growth of information technology and the telecommunications industry in the PRC in recent years, the Directors believe the Group is well positioned to meet the growth and demand for technologically advanced and affordable wireless solutions in the future. The Directors believe that its telecommunications solutions have exceptional market potentials in the PRC in the coming years. Their market potentials can be summarized below:

1. Data communication solutions

The Directors believe the market potential of the Group's data communication solutions is reflected in two trends: the booming wireless market, such as SMS and other wireless value-added services, and the growing demand for multimedia transmission systems through fixed line and wireless Internet.

STATEMENT OF BUSINESS OBJECTIVES

According to CCID's forecast report, other than personal usages, enterprises may also use the method of mass-sending messages as a new advertising medium.

The emergence of the SMS market is anticipated to create increasing demand for wireless communication platform software and customer terminal software. In the near future, SMS will be a major line of business for PRC telecommunications operators. Currently, China Unicom has already been using the Group's SMS solutions and products; whereas, China Mobile is currently undergoing tests on the Group's SMS solutions and products.

2. Telecom operation solutions

On 11th December 2001, the PRC became an official member of WTO and as a result it is anticipated that the PRC will open its telecommunications market which the Directors believe will bring enormous market potential to both telecommunications operators and technology suppliers.

With the rapid growth of traditional telecom business and new technology such as wireless technology applied in data communication and multimedia communication, the Directors believe its telecom operation solutions will meet the demand of the rapidly growing market. As stated in this prospectus, with the increasing popularity of broadband Internet access, traditional telecommunications operators are finding new methods to efficiently manage their internal data analysis capabilities in this particular field. As a result, new compatible solutions to support their customers will become a potential market in the coming years. The Directors believe that the Group's long-term relationship with China Unicom, China Mobile and China Telecom shall ensure the Group's solutions efficient penetration into the potential market.

Product Enhancement and Development

Data Communication Solutions						
From LPD to 30th June, 2002	Six months ending 31st December, 2002	Six months ending 30th June, 2003	Six months ending 31st December, 2003	Six months ending 30th June, 2004	Six months ending 31st December, 2004	
- Enhance the quality of the wireless communication system on the UNIX OS platform	- Release the workstation version of the wireless communication system that is more stable and contains a larger capacity	- Upgrade the wireless communication system to version 2.0	- Upgrade the wireless communication system to version 3.0	- Upgrade the wireless communication system to version 3.05 to support greater coverage	- Enhance the quality and stability of the wireless communication system version 3.05	
- Enhance the quality of the data switch platform that supports CTI, IVR	- Standardise the gateway link of the data switch platform and enhance its processing power	- Conduct R&D on an enhanced gateway link based on a more advanced wireless communication standard	- Release an enhanced version of the data switch platform utilizing a CTI provided by a multinational telecommunications equipment provider	- Implement 3G capability in the data switch platform	- Enhance data switch platform with 3G capability	
- Launch enhanced version of a wireless value-added system that is compatible with the data switch platform	- Launch an urban call center service system that enables wireless purchasing	- Launch an integrated data system	- Enhance the quality of the integrated data system	- Research on wireless Internet capability	- Release large-scale wireless application systems	
- Release a large capacity e-mail system prototype that is compatible with various multi-medium	- Release a broadband Internet-focused large capacity e-mail system	- Release the prototype of a mobile-based e-mail management system	- Launch the mobile-based e-mail management system	- Research on an united data communication system	- Release an united data communication system	
- Develop a video-conferencing enabling system	- Launch the video-conferencing enabling system			- Research on wireless broadband capability	- Release a wireless broadband middle-ware	

Product Enhancement and Development

Telecom Operation Supports Solutions	From LPD to 30th June, 2002	Six months ending 31st December, 2002	Six months ending 30th June, 2003	Six months ending 31st December, 2003	Six months ending 30th June, 2004	Six months ending 31st December, 2004		
	- Develop a standardised telecom OA system	- Develop an integrated data management system	- Launch a broadband network management system	- Launch a residential network management system	- Develop CRM capability in the telecom OA system	- Develop data analysis capability in the telecom OA system	- Enhance the quality of the telecom OA system	- Release an integrated corporate data management system
	- Enhance the quality of the Internet traffic, monitoring and billing system	- Launch a broadband network management system	- Launch a residential network management system	- Enhance the functionality of the broadband Internet CRM system	- Same as previous	- Release a new version of the broadband Internet CRM system		
	- Launch an online telecom e-commerce system to serve as a more efficient billing and operation platform	- Enhance the quality of the online telecom e-commerce system	- Launch an integrated online telecom management system to provide telecom operators with an effective e-commerce platform	- Enhance the integrated online telecom management system	- Same as previous	- Release a new version of the integrated online telecom management system with enhanced capabilities		

	From LPD to 30th June, 2002	Six months ending 31st December, 2002	Six months ending 30th June, 2003	Six months ending 31st December, 2003	Six months ending 30th June, 2004	Six months ending 31st December, 2004
Date Communication Solutions	- Conduct direct sales activities at every provincial telecommunications companies	- Establish and expand distribution network through the opening of provincial sales offices	- Create brand awareness by advertising in telecommunications magazines and through other multimedia	- Same as previous	- Same as previous	- Same as previous
	- Establish joint-sales efforts with other domestic wireless communication system providers	- Same as previous	- Participate in telecommunications exhibitions and conventions	- Same as previous	- Jointly organise trade show with telecommunications operators	- Same as previous
	- Launch major marketing campaigns on wireless value-added systems	- Same as previous	- Same as previous	- Establish joint-sales efforts with multinational data switch platform providers	- Same as previous	- Same as previous
	- Practise bundled selling technique	- Same as previous				

From LPD to 30th June, 2002	Six months ending 31st December, 2002	Six months ending 30th June, 2003	Six months ending 31st December, 2003	Six months ending 30th June, 2004	Six months ending 31st December, 2004
Telecom Operation Solutions	- Conduct direct sales activities at most provincial telecommunications companies	- Establish and expand distribution network through the opening of provincial sales offices	- Create brand awareness by advertising in telecommunications magazines and through other multimedia	- Same as previous	- Same as previous
	- Promote a variety of telecom OA systems	- Focus on the promotion of the telecom OA systems	- Participate in telecommunications exhibitions and conventions	- Same as previous	- Jointly organise trade show with telecommunications operators
	- Promote integrated telecom operation solutions	- Same as previous	- Establish strategic alliances with suppliers	- Same as previous	- Expand distribution network through the opening of provincial sales offices and the hiring of professional sales staffs

Strategic Investments and Business Collaborations

From LPD to 30th June, 2002		Six months ending 31st December, 2002	Six months ending 30th June, 2003	Six months ending 31st December, 2003	Six months ending 30th June, 2004	Six months ending 31st December, 2004
Data Communication Solutions	- Establish joint-sales efforts with other domestic wireless communication system providers	- Establish strategic alliances with telecommunications operators to develop the wireless value-added market	- Establish strategic alliances with reputable multinational data switch platform providers to strengthen the Group's brand	- same as previous	- Invest in or acquire a wireless terminal device supplier	- Jointly develop wireless terminal devices with reputable global firm
	- Strengthen the relationship with Zhejiang University in respect of the sourcing of technical human resources and developing telecommunications software	- Same as previous	- Acquire a broadband value-added system provider	- Continue to seek opportunity in the investment or acquisition of a broadband value-added system provider	- Invest in a virtual telecommunications operator	- Increase investment in a virtual telecommunications operator
Telecom Operation Solutions	- Establish strategic alliances with suppliers to promote the sale of broadband Internet CRM systems	- Jointly develop the residential network with strategic alliances		- Seek opportunity in business collaborations with reputable global firms to enhance the Group's image		
		- Establish a strategic alliance with IBM on the development of the e-commerce platform	- Establish strategic alliances with multinational companies on the development of broadband Internet management systems	- Same as previous		

Employment of Human Resources

As at the Latest Practicable Date, the Group employed a total work force of 155 full time staff and 32 part time staff at the headquarters in Hangzhou, excluding branch offices and subsidiaries, in the PRC. Following its development plan, the Directors expect the total number of employees of the Group's headquarters to be as follows:

	From LPD to 30th June, 31st December, 2002	Six months ending 2002	Six months ending 30th June, 31st December, 2003	Six months ending 2003	Six months ending 30th June, 31st December, 2004	Six months ending 31st December, 2004
Management	10	15	20	25	30	38
Research and product development	135	145	165	195	250	340
Sales and marketing	25	30	40	50	65	77
Administration and finance	20	20	25	30	35	45
Total:	190	210	250	300	380	500

Use of Proceeds

Based on the Placing Price of HK\$0.95 per H Share (being the highest point of the indicative range of the Placing Price between HK\$0.77 and HK\$0.95 per H Share), after deducting the placing commission and estimated expenses payable by the Company in relation to the Placing, are estimated to amount to approximately HK\$80 million on the basis that the Over-allotment Option is not exercised. The estimated cost of implementing the Group's business objectives is broken down as follows:

	From LPD to 30th June, 31st December, 2002 HK\$'000	Six months ending 2002 HK\$'000	Six months ending 30th June, 31st December, 2003 HK\$'000	Six months ending 30th June, 31st December, 2004 HK\$'000	Six months ending 31st December, 2004 HK\$'000	Total 2004 HK\$'000
Product enhancement and development	3,300	4,300	5,800	5,800	5,800	5,000
Sales and marketing	3,200	3,200	3,200	3,000	2,600	2,800
Strategic investments and business collaboration	6,000	7,000	4,000	4,000	3,000	3,000
Total:	12,500	14,500	13,000	12,800	11,400	10,800

STATEMENT OF BUSINESS OBJECTIVES

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe the net proceeds from the Placing shall provide the Group with sufficient financial resources for the successful execution of its business objectives, such as accelerating the R&D of its telecommunications solutions, expanding its R&D team and building a national sales and distribution network. The net proceeds derived from the Placing shall strengthen the overall market position of the Group and assist the Group in its future business development and marketing.

Based on the Placing Price of HK\$0.95 per H Share (being the highest point of the indicative range of the Placing Price between HK\$0.77 and HK\$0.95 per H Share), the net proceeds from the Placing, after deducting the placing commission and estimated expenses payable by the Company in relation to the Placing, are estimated to amount to approximately HK\$80 million on the basis that the Over-allotment Option is not exercised. The Directors currently intend to apply such net proceeds as follows:

- approximately HK\$30 million will be used for product enhancement and development, of which approximately HK\$15 million will be used as operating expenditure of the R&D department, such as salary for R&D staff, travelling, accommodation and training to cope with the increase in forecast business volume, approximately HK\$5 million will be used for purchasing computer hardware, software and testing equipment, approximately HK\$5 million will be used for recruiting high caliber R&D staff with technical expertise and approximately HK\$5 million will be used for funding the Research Center;
- approximately HK\$18 million will be used as sales and marketing expenses, of which approximately HK\$10 million will be used in conducting market research, attending exhibitions and launching product promotion campaign, approximately HK\$5 million will be used in multimedia advertising and approximately HK\$3 million will be used in training program for sales staff;
- approximately HK\$27 million will be used for strategic investments and business collaborations, of which approximately HK\$15 million will be used to establish strategic alliances with wireless communication system providers to develop more sophisticated wireless value-added systems and approximately HK\$12 million will be used to form business collaborations to conduct joint promotional activities and to strengthen the Group's brand through the establishment of branch offices, sales points and an after-sale service center; and
- the balance of approximately HK\$5 million will be used as additional working capital.

In any circumstances that the Placing Price is less than HK\$0.95 per H Share, the application of the net proceeds will be allocated in the same percentage breakdown as shown above.

STATEMENT OF BUSINESS OBJECTIVES

To the extent that the net proceeds from the Placing are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed in short-term deposits. Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$13 million which, together with the net proceeds from the Placing after deducting related expenses, will amount to approximately HK\$93 million. Assuming the Over-allotment Option is exercised in full, the Directors intend to apply the additional proceeds as additional working capital.

In the event that any part of the business plans of the Group does not materialise or proceed as planned, the Directors will evaluate the situation and may reallocate the intended funding to other business plans and/or to new projects of the Group and/or to hold such funding as short-term deposits so long as the Directors consider it to be in the best interests of the Group and its shareholders taken as a whole. The Group will make an appropriate announcement if this occurs.

For details of the various plans stated above, including the expected timing thereof, please refer to the section headed “Statement of business objectives” in this prospectus.

DIRECTORS

Executive Directors

Mr. CHEN Ping, (陳平), 38, is the chairman and the general manager of the Company, an advisor to students seeking their master degree and an associate professor at Zhejiang University who does not conduct lectures or teaches at Zhejiang University. Instead, Mr. Chen spends on average 5 to 10 hours per week to supervise his R&D students at the Research Center. As the general manager, Mr. Chen is responsible for the daily management of the Company. Mr. Chen graduated from the Department of Computer Science and Technology at Zhejiang University with a bachelor degree and a master degree in computer applications in July 1987 and December 1989, respectively. Since graduation from Zhejiang University, Mr. Chen has been involved in the R&D of computer networking and communication platforms, particularly in wireless data communication platforms and was awarded the Zhejiang Province Science and Technology Advancement Second Prize and Third Prize in 1993. Mr. Chen had previously conducted classroom lectures in the Department of Computer Science and Technology at Zhejiang University for 7 years up to 1997. Mr. Chen has published two computer networking academic textbooks and professional technology magazines in China and has published more than ten of his academic papers. Mr. Chen joined the Company in May 1997.

Mr. ZHAO Jian, (趙建), 36, is a Director, a vice chairman and senior engineer of the Company and the president of Zhejiang Innovation. Mr. Zhao graduated from the School of Business Administrations at Zhejiang University with a master degree in January 1991. Before joining the Company in June 2001, Mr. Zhao served as a director and the vice president of Zhejiang Zheda Haina Technology Company Limited (浙江浙大海納科技股份有限公司), a listed company on the Shenzhen Stock Exchange that is involved in the R&D, manufacturing and sales of semi-conductors and automated control systems, conducting investment management. Mr. Zhao was also the executive of the Software Industry Association of Zhejiang, the vice director of the Professional Commission of Computing Engineering and Application of Zhejiang Electronics Association and the vice chairman of the Computing Industry Association of Zhejiang where he served as the representative to attend regular meetings. Mr. Zhao does not participate in the daily management of the Company and only serves as representative from Zhejiang Innovation to occasionally supervise, provide consultation service and introduce potential business partners to the Company.

Mr. XUE Shi Cheng, (薛仕成), 38, is the vice chairman of the Company. Mr. Xue graduated from Zhejiang Agricultural University in July 1987 and has previously worked for the State Science & Technology Commission and the Ministry of Internal Trade. Moreover, Mr. Xue has served as the deputy secretary-general of Beihai Government, the vice president of Beijing Guoheng, the chairman of Beijing TianXiang Garden Bio-tech Investment Co. and the vice executive chairman of Venture Capital Association of Beijing where he was involved in the seeking and co-ordination of investments. Mr. Xue has been involved in the investment and capital management of high technology products in the PRC and is particularly experienced in the investment of startup companies, the capital reorganisation of high-tech enterprises, mergers and acquisitions and promoting companies to be listed on the stock exchanges. Mr. Xue does not participate in the daily management of the Company and only serves as representative from Beijing Guoheng to occasionally supervise, provide consultation service and introduce potential business partners to the Company. Mr. Xue joined the Company in April 2001.

Mr. CHEN Chun, (陳純), 47, is a Director of the Company, the supervisor of the Research Center, a professor of Zhejiang University, an advisor to doctorate students, the vice principal of Zhejiang University's College of Information Science and Technology, the supervisor of Zhejiang University Computing Software Research Institute and a supervisor of Zhejiang University's Department of Computer Science and Technology where he taught and conducted lectures and relevant R&D. Mr. Chen graduated from Zhejiang University with a doctorate degree in computer applications in June 1990. Mr. Chen was a senior visiting scholar of Computer Science at the University of Calgary in Canada during the period from March 1996 to March 1997.

Mr. Chen was awarded the National Science and Technology Advancement Third Prize in December 1996, the Zhejiang Province Science and Technology Advancement Second Prize in February 1991, the Textile Association Technology Second Prize in December 1995, and The Second Youth Prize of Science and Technology in May 1992. Mr. Chen has been one of the major technology contributors in Zhejiang Province and was recognised as a pioneer of technology among elite teenagers in Zhejiang Province. Mr. Chen does not participate in the daily management of the Company and only serves as representative from Zhejiang Qware to occasionally supervise, provide consultation service and introduce potential business partners to the Company. Mr. Chen joined the Company in April, 2001.

Mr. BAO Shu Xin, (鮑曙新), 32, is a Director and vice general manager of the Company and an engineer. Mr. Bao graduated from Zhejiang University's Department of Computer Science and Technology with a bachelor degree and a master degree in business administration in July 1992 and March 2001, respectively. Upon graduation, Mr. Bao pursued his career at the Zhejiang Research Institute of Computing Technology, where he conducted marketing activities, and later joined the Company in February 1998. Mr. Bao is mainly responsible for the marketing of the telecommunications solutions and products, which includes conducting market assessment, strategic planning, business development and liaising with potential clients. His decisions are often subjected to the final approval of Chen Ping.

Independent Non-Executive Directors

Mr. CAI Xiao Fu, (蔡小富), 63, is a senior engineer and the chairman of Zhejiang Software Industry Association, overseeing the development of Zhejiang Province IT industry. Mr. Cai graduated from Tsing Hua University's Department of Control Automation in July 1963 and attended Cranfield Institute in the United Kingdom during October 1981 to January 1984 to research aeronautics and computer simulation devices.

Mr. Zhang De Xin, (張德馨), 72, graduated from the Department of Electrical Engineering at Zhejiang University in July 1953 and Tsing Hua University in June 1956 and attended Illinois Institute of Technology in the United States during June 1982 to May 1984 to conduct research in the fields of Electrical Engineering and Computer Science. Professor Zhang has served as a professor at Zhejiang University's Department of Electrical Engineering, Department of Electronics Engineering and Department of Computer Science for 37 years since 1956 and a Committee of Zhejiang Political Consultative Conference for two terms in 1988 and 1993. Moreover, Professor Zhang has been involved in numerous research projects and studies in computing networks. Professor Zhang is also a three-times award winner of the Zhejiang Province Science and Technology Advancement Award in 1989, 1991 and 1993.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Mr. WANG Yue Hao, (王越豪), 37, is a senior partner, director, vice general manager and senior accountant of Zhejiang Tianjian Accounting Firm (浙江天健會計師事務所). Mr. Wang is also a guest lecturer at Hangzhou University of Commerce and a part-time finance professor at Zhejiang University of Finance and Economics. Mr. Wang graduated from Shanghai University of Finance and Economics with a master degree in management in January 1999. Mr. Wang is a member of China Institute of Certified Public Accountants and an associate member of Hong Kong Society of Accountants.

SUPERVISORS

Mr. WANG Wei Li, (王偉力), 25, is a supervisor and assistant engineer of the Company. Mr. Wang graduated from Shantou University's Department of Electronics Engineering in Guangdong Province in June 1998. Mr. Wang was involved in the development and implementation of the Company's wireless communication coding system, the FLEX system. Mr. Wang joined the Company in July 1998.

Mr. LI Yao Ting, (李耀庭), 32, graduated from Wang Shigang School of Professions in June 1993. Mr. Li is currently the assistant manager of the Comprehensive Management Department Company and is responsible for monitoring human resources. Mr. Li joined the Company in May 2001.

Mr. FU Liang Yuan, (傅良園), 46, supervisor. He has taught in the Faculty of Commerce at Shanghai Polytechnic University. Mr. Fu joined the Shanghai Huazhan Group Company Limited, a company that conducts industrial investment, in 1999 and worked as the assistant of director and manager of financial department. Mr. Fu was fully responsible for the work in the finance department of the Group and at the same time monitors work in the investment department. Mr. Fu had previously served as the financial director of Huatong International Group Company Limited headquartered in Shanghai since August 2000 for 8 months. Mr. Fu joined the Company in April 2001.

Independent Supervisors

Mr. GU Yu Lin, (顧玉林), 32, is responsible for performing a supervisory function in relation to the Company's board of directors, manager and other officers and report independently to the Shareholders in general meeting of the Company. Mr. Gu is an assistant accountant. Mr. Gu graduated from Fudan University of Finance and Accounts in June 1997. Mr. Gu is currently working in the principal office of Zhejiang University.

Mr. FENG Pei Xian, (豐培先), 65, is responsible for performing a supervisory function in relation to the Company's board of directors, manager and other officers and report independently to the Shareholders in general meeting of the Company. Mr. Feng is graduated from Shantong Industrial Institute. Mr. Feng was the deputy chief engineer of the 52nd Research Officer of Ministry of Information Industry of the Research Institute and Chief Editor of "External Computing Equipment". Mr. Feng is now the Chief Secretariat of the Zhexiang Computing User Association and Reporter Officer of the China Computing News in Zhexiang.

SENIOR MANAGEMENT

Mr. JIN Lian Fu, (金連甫), 55, is the deputy general manager of the Company in charge of operation, an associate professor at Zhejiang University's Computer Science and Technology Department and an advisor to Master students. Mr. Jin graduated from Zhejiang University's Department of Applied Mathematics, allowing which he has been involved in various research and development of computing networks and operating systems. Mr. Jin was awarded the Nation's Science and Technology Advancement Third Prize in 1992 and various awards on software applications from 1992 to 1995. Mr. Jin has served as a vice supervisor of Zhejiang University Management Information Office and a supervisor of an office automation research laboratory.

Mr. WANG Lei Bo, (王雷波), 28, is the deputy general manager of the Company in charge of the technology department. He graduated from Zhejiang University's Computer Science and Technology Department with a Master degree. Mr. Wang has been involved in the R&D of telecommunications systems since 1997, particularly on the wireless communication platforms, data switch platforms and customer services supporting systems. Mr. Wang joined the Company in May 1997.

Ms. LIU Qiao Ping, (劉巧萍), 29, is the assistant to the general manager and the Secretary of the Board of the Company. She graduated from the University of Petroleum. Ms. Liu joined the Company in April 1998.

Mr. WANG Jin Ben, (王金本), 36, is the chief financial officer of the Company, a member of the China Institute of Certified Public Accountants and a Senior Accountant. He graduated from Jiangxi University of Finance and Economics with a Master of Business Administrations degree and majored in Accounting. Mr. Wang joined the Company in January 2001.

Mr. WANG Jin Cheng, (王金成), 33, is the general manager of the Company's Engineering and Communication Department. He graduated from Daqing Oil College with a Bachelor of Science degree in Computer Science. He has previously served as a lecturer at the Department of Computing Science in Daqing Oil College from July 1992 to February 1997, researched on computer networking products and principle of large-scale database and had been awarded twice the provincial science and technology advancement award, issued by the Heilongjiang Educational Commission (黑龍江省教育委員會). Mr. Wang joined the Company in May 1997.

Mr. QIU Jin Song, (邱勁松), 31, is the general manager of the Company's Information Career Department, responsible for the overall management of the department including formulating development plans and monitoring the progress of projects. He graduated from Zhejiang University's Department of Computer Science and Technology with a Master degree. Mr. Qiu served as a lecturer at Zhejiang University from 1999 to 2001 and is particularly experienced in the fields of data communication, CTI, call center systems and network management. Mr. Qiu joined the Company in March 2001.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

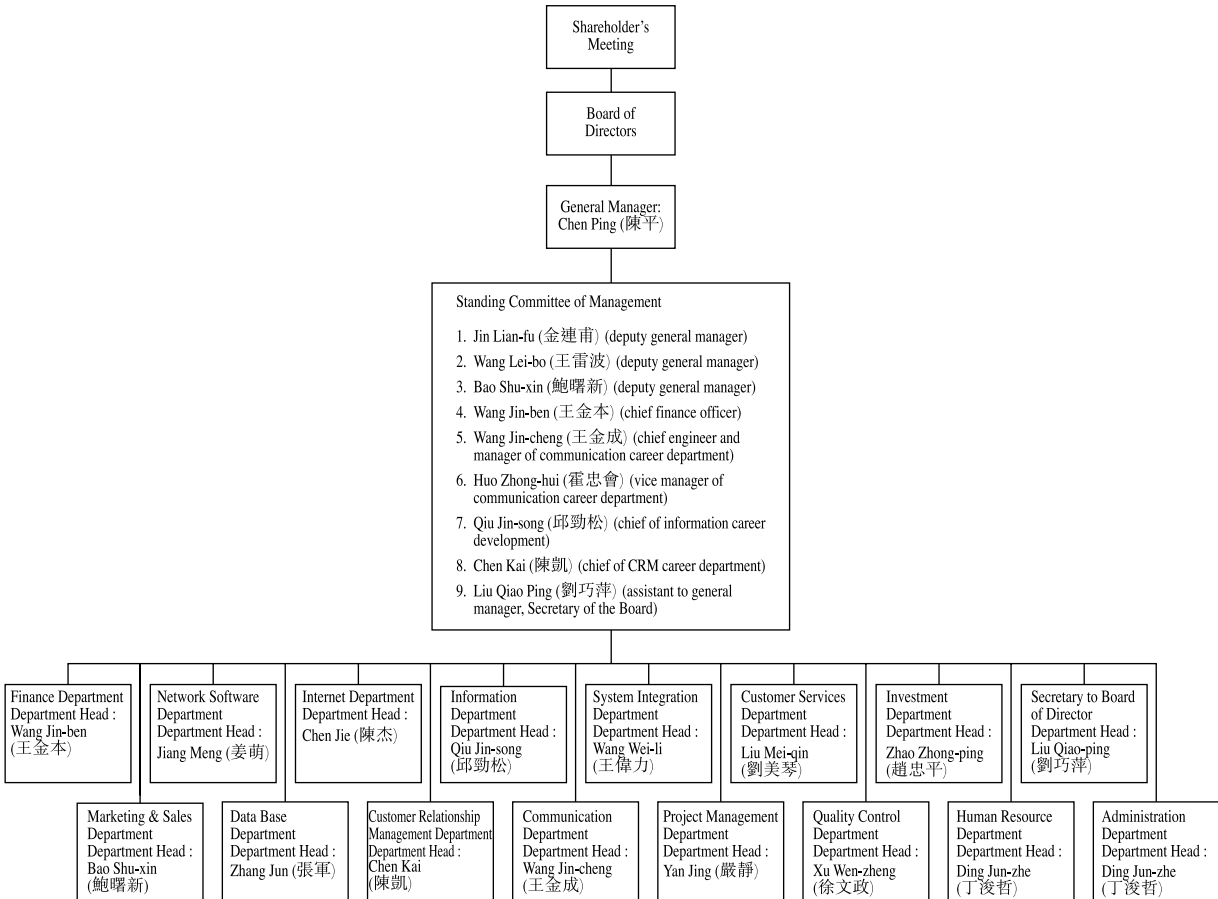
Mr. CHEN Kai, (陳凱), 29, is the general manager of the Company’s CRM career department, responsible for the overall management of the department including formulating development plans and monitoring the progress of projects. He graduated from Zhejiang University’s Department of Mechanical and Electronics Engineering. Moreover, Mr. Chen is a qualified Lotus engineer. Mr. Chen joined the Company in February 2001.

Mr. HUO Zhong Hui, (霍忠會), 32, is a vice general manager of the communication career department of the Company, responsible for conducting research and technical work. He graduated from Zhejiang University’s Department of Computer Software with a Master degree. Mr. Huo joined the Company in March 1999.

Qualified accountant and company secretary

Mr. FORK Siu Lun, Tommy, (霍兆麟), 39, is the qualified accountant and company secretary of the Company. He has over 17 years of experience in auditing, accounting and financial management. Graduated with a Bachelor of Science degree from the University of Hong Kong, Mr. Fork is a fellow member of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Before joining the Company in December 2001, Mr. Fork was a senior audit manager with an international accounting firm.

Organization Structure of the Company



AUDIT COMMITTEE

The Company established an audit committee in November, 2001 with terms of reference in compliance with Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review the annual reports and accounts, interim reports and quarterly reports of the Company, and to provide relevant recommendations and advice to the Board and supervise the financial reporting process and internal control system of the Group. The audit committee has two members namely, the two independent non-executive Directors, Mr. Zhang De-xin and Mr. Cai Xiao-fu with Mr. Cai Xiao-fu as the chairman.

STAFF**Overview of staff**

As at the Latest Practicable Date, the Group employed a total of 187 employees. The following table provides a breakdown of their functions:

Products and software development	85
Research and development	49
General administration, finance and accounting	23
Sales and marketing	18
Customers services and technical support	<u>12</u>
Total	<u>187</u>

Group's relationship with staff

The Directors consider that the Group maintains a good relationship with its employees and has never experienced any significant difficulties in recruiting and retaining experienced talent. The Group has never experienced any material disruption in its normal business operations stemming from labour disputes.

The remuneration to the employees

The remuneration payable to the employees, excluding sales personnel, includes a basic salary, allowances and discretionary bonuses. In addition, each eligible employee is covered by defined contribution retirement schemes organised by the relevant local government authorities in mainland China. The Group is required to make monthly contributions to the retirement scheme, up to the time of retirement of the eligible employees, at rates ranging from 20.6% to 23.0% of the local standard basic salaries. The local government authorities are responsible for the pension liabilities to these retired employees.

It is required by the local government that the Group provides housing fund (15% of its employees' basic salary, among which 8% is contributed by the Group and 7% is contributed by employees) to its employees. In addition to this mandatory housing fund, the Group also provides interest free loans to certain employees to retain their specific talents.

The Group provides mandatory provident fund scheme for its staff in Hong Kong. Under the mandatory provident fund scheme, subject to exemptions as provided in the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong), both the Group and the employee have to contribute an amount equal to 5.0 per cent. of the "relevant income" of such employee to the fund. "Relevant income" includes wages, salary, leave pay, fee, commission, bonus, gratuity and allowance expressed in monetary terms (excluding housing allowance or other housing benefit). The minimum and maximum levels of monthly "relevant income" are HK\$4,000 and HK\$20,000 respectively. An employee earning less than HK\$4,000 per month is not required to contribute but may elect to do so. However, the Group must still contribute 5.0 per cent. of the employee's "relevant income" even if it is below HK\$4,000. An employee whose monthly relevant income is more than the maximum level is not required to contribute in respect of the excess relevant income.

Contributions from the Group and an employee are 100.0 per cent. vested in the employee as soon as they are paid to the mandatory provident fund scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 (subject to a few exceptions, including early retirement between age 60 and 64, death, total incapacity and permanent departure from Hong Kong).

As at 31st December, 2001, the Group had no significant obligation to the employees apart from the contribution as stated above. The Group currently has no share option scheme in place, but has conditionally adopted the Share Option Scheme as summarised in Appendix VI to this prospectus. The Group provides on-the-job training to employees from time to time, while technical personnel receive more sophisticated training from research institutions and Zhejiang University.

The emoluments of the Directors and Supervisors

For the year ended 31st December, 2001, the salaries, allowance and benefits in kind paid to the five executive Directors were approximately RMB147,000, RMB113,000, RMB8,000, RMB4,000 and RMB2,000 respectively. Each of the three independent Directors received emoluments of approximately RMB3,000. Two Supervisors received emoluments of approximately RMB42,000 and RMB22,000 respectively.

For each of the three years ended 31st December, 2001, the five highest paid individuals of the Group included nil Directors and Supervisors in 1999, nil Directors and Supervisors in 2000 and 2 Directors and nil Supervisors in 2001.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Under the existing arrangements in force, the aggregate emoluments of the Directors and Supervisors payable for the year ending 31st December, 2002, including benefits and contributions but excluding discretionary bonus, are estimated to be approximately RMB557,000. The emoluments of the Directors and Supervisors after listing are as follows:

	<i>RMB</i>
Executive Directors:	
CHEN Ping	250,000
BAO Shu Xin	150,000
CHEN Chun	40,000
XUE Shi Cheng	20,000
ZHAO Jian	<u>10,000</u>
	<u>470,000</u>
Independent Non-Executive Directors:	
CAI Xiao Fu	5,000
ZHANG De Xin	5,000
WANG Yue Hao	<u>5,000</u>
	<u>15,000</u>
Supervisors:	
WANG Wei Li	40,000
LI Yao Ting	20,000
FU Liang Yuan	<u>3,000</u>
	<u>63,000</u>
Independent Supervisors:	
GU Yu Lin	6,000
FENG Pei Xian	<u>3,000</u>
	<u>9,000</u>
Total	<u><u>557,000</u></u>

The basic annual salary of Chen Ping is relatively higher than those of Zhao Jian, Xue Shi-cheng and Chen Chun, because each of the latter three individuals are simply representatives of their own investment companies, which are shareholders of the Company. Zhao Jian, Xue Shi-cheng and Chen Chun do not actually participate in the daily management of the Company and thus, their pays are justified to be lower than that of Chen Ping's.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme under which the Board may, at its absolute discretion, grant Participants (which has been defined under the section “Summary of Terms of the Share Option Scheme”) options to subscribe for the H Shares. Participants who are PRC nationals shall not be entitled to exercise the options until (i) the H Shares Restrictions (which is defined as the current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for or dealing in the H Shares or any PRC laws or regulations with similar effect) have been lifted; and (ii) the CSRC or other relevant government authorities in the PRC have approved the new issue of H Shares upon the exercise of any option which may be granted under the Share Option scheme.

The Company believes that adoption of the Share Option Scheme before the Placing can save the administrative cost and time of the Company. If the Share Option Scheme is to be adopted after the Placing, the Company, for the purpose of complying with the GEM Listing Rules, will have to convene a shareholders’ meeting to approve the same, which will result in additional administrative costs for the Company. In addition, the Company believes that the adoption of the Share Option Scheme is an indication of the Company’s commitment to its staff thus enhancing the morale of its staff despite the fact that PRC nationals shall not be entitled to exercise the Options until the current restriction imposed by the relevant PRC laws and regulations have been abolished or removed. A summary of the main terms of this scheme is set out in the section headed “Summary of the Terms of the Share Option Scheme” in Appendix VI to this Prospectus. As at the date of this Prospectus, no share options have been granted under the Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, the persons who constitute Substantial Shareholders of the Company (defined in the GEM Listing Rules as any person who is entitled to exercise, or control the exercise of, 10% or more of the voting power at general meetings of the Company) and their respective shareholding interests in the Company immediately after the completion of the Placing (and assuming that the Over-allotment Option is not exercised) are as follows:

Shareholder	Number of Domestic Shares directly or indirectly interested after the Placing	Percentage of registered share capital (if Over- allotment Option is not exercised)
Chen Ping (陳平)	36,392,320	11.20%
Zhejiang Qware (Note 1)	34,117,800	10.50%
Beijing Guoheng (Note 1)	34,117,800	10.50%
Zhejiang Innovation (Note 1)	34,117,800	10.50%

Note:

1. Please refer to the section headed “Shareholding and Corporate Structure” for further details.

INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, the following persons are the Initial Management Shareholders of the Company (defined in the GEM Listing Rules as any person who is (or group of persons who together are) entitled to exercise, or control the exercise of 5% or more of the voting power at general meetings of the Company and who is (or are) able, as a practical matter, to direct or influence the management of the Company immediately prior to the Listing Date). The respective shareholding interests directly or indirectly held by such Initial Management Shareholders immediately after the completion of the Placing (and assuming that the Over-allotment Option is not exercised) are set out below:

Shareholder	Number of Domestic Shares directly or indirectly interested after the Placing	Percentage of registered share capital (if Over-allotment Option is not exercised)
Chen Ping 陳平 (Note 1)	36,392,320	11.20%
Zhejiang Qware (Note 2)	34,117,800	10.50%
Beijing Guoheng (Note 2)	34,117,800	10.50%
Zhejiang Innovation (Note 2)	34,117,800	10.50%
Shi Chun-hua 施春華 (Note 3)	16,490,280	5.07%
Wu Zhong-hao 吳忠豪 (Note 3)	16,490,280	5.07%
Liu Qiao-ping 劉巧萍 (Note 4)	10,235,340	3.15%
Chen Guo-cai 陳國才	10,235,340	3.15%
Bao Shu-xin 鮑曙新 (Note 1)	8,643,170	2.66%
Wang Jin-cheng 王金成 (Note 5)	7,505,910	2.31%
Wang Lei-bo 王雷波 (Note 6)	7,505,910	2.31%
Chen Chun 陳純 (Note 1)	4,094,130	1.26%
Huo Zhong-hui 霍忠會 (Note 7)	4,094,130	1.26%
Jin Lian-fu 金連甫 (Note 8)	3,411,790	1.06%
Total:		<u>70.00%</u>

Notes:

- Each of Chen Ping, Bao Shu-xin and Chen Chun is a Director of the Company.
- Please refer to the section headed “Shareholders and Corporate Structure” for further details.
- Each of Wu Zhong-hao and Shi Chun-hua is a founder of the Company. Shi Chun-hua was previously a supervisor of the Company and had worked in a construction company for about 20 years and a trading company for about 10 years. Wu Zhong-hao previously worked in a metal factory for about 20 years and an electronic factory for about 5 years.

SUBSTANTIAL SHAREHOLDERS AND INITIAL MANAGEMENT SHAREHOLDERS

4. Liu Qiao-ping is the Assistant to General Manager and Secretary of the Board of the Company.
5. Wang Jin-cheng is the chief engineer of the Company.
6. Wang Lei-bo is the deputy general manager of the Company.
7. Huo Zhong-hui is the deputy general manager of the Company.
8. Jin Lian-fu is the deputy general manager of the Company.

RESTRICTIONS ON DISPOSAL OF DOMESTIC SHARES

Each of the Initial Management Shareholders has undertaken to the Stock Exchange, the Company and the Sponsor (on behalf of the Underwriters) that for a period of 12 months from the Listing Date, he/it will not, save as provided in Rule 13.18 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of his/its direct or indirect interest in the relevant securities.

Each of the Initial Management Shareholders has further undertaken to the Stock Exchange, the Company and the Sponsor (on behalf of the Underwriters) to comply with the following requirements under Rule 13.19 of the GEM Listing Rules:

- (i) in the event that the Initial Management Shareholder pledges or charges any direct or indirect interest in relevant securities under Rule 13.18(1) of the GEM Listing Rules or pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules, at any time during the above relevant periods (as the case may be), he/it must inform the Company immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules; and
- (ii) having pledged or charged any of their interest in the relevant securities under subparagraph (i) above, he/it must inform the Company immediately in the event that he/it becomes aware that the pledgee(s) or chargee(s) has/have disposed of or intend(s) to dispose of such interest and of the number of the relevant securities affected.

If, after the date of this prospectus, any subsequent change in the restrictions on the transfer of Domestic Shares under the Company Law should result in the Initial Management Shareholders being able to transfer his/its Domestic Shares before the expiry of the lock-up period under the GEM Listing Rules, such party would remain bound by its non-disposal undertaking to the Stock Exchange, the Company and the Sponsor (on behalf of the Underwriters) until the expiry of such lock-up period.

SHARE CAPITAL

The registered share capital of the Company, issued or to be issued, fully paid or credited as fully paid, immediately after the completion of the Placing and assuming the Over-allotment Option is not exercised, will be as follows:

Registered capital *RMB*

Issued:

227,452,000	Domestic Shares in issue at the date of this prospectus	22,745,200
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To be issued:

<u>97,500,000</u>	H Shares to be issued pursuant to the Placing	<u>9,750,000</u>
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Total:

<u>324,952,000</u>	Shares	<u>32,495,200</u>
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1. Assumption

The above table assumes that the Placing becomes unconditional. If the Over-allotment Option is not exercised, the registered share capital of the Company immediately after the completion of the Placing will comprise 97,500,000 H Shares which will represent approximately 30.00% of the registered share capital of the Company. If the Over-allotment Option is exercised in full, the registered share capital of the Company immediately after the completion of the Placing will comprise 112,125,000 H Shares which will represent approximately 33.02% of the registered share capital of the Company.

2. Minimum Public Float

Under the GEM Listing Rules, the Company is required to maintain a public float of a minimum of 25% of its issued share capital at all times after listing, provided that no other securities (other than H Shares) have been issued by the Company to the public in the meantime. In the event of any such issue of securities (other than H Shares) to the public, then: (i) 100 % of such H Shares must be held by the public; (ii) the percentage of H Shares in public hands shall not be less than 10% of the Company's total issued share capital; and (iii) minimum level of public float of the aggregate of H Shares in issue and such other securities to be issued to the public shall remain at 25% of the Company's then total issued share capital.

3. Ranking

Domestic Shares and H Shares are both ordinary shares in the share capital of the Company. However, H Shares may only be subscribed for by, and traded in Hong Kong dollars between, legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic Shares, on the other hand, may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be paid by the Company in Renminbi.

The Domestic Shares held by the Promoters may not be sold within a period of three years from the date of incorporation of the Company. As at the date of this prospectus, none of the Promoters has sold any Domestic Shares held by it. The Domestic Shares are not admitted for listing on any stock exchange and no arrangement has been made for the Domestic Shares to be traded or dealt with on any other authorised trading facility in the PRC.

Except as described above and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents, are all provided for in the Articles of Association and summarised in Appendix V to this prospectus. The Domestic Shares and the H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to such restrictions as PRC law may impose from time to time.

Save for the Placing, the Company does not propose to carry out a public or private issue or to place securities simultaneously with the Placing in the foreseeable future. The Company has not approved any share or debt issue plan other than the Placing.

INDEBTEDNESS

As at the close of business on 28th February, 2002, being the most recent practicable date for the purpose of this statement of indebtedness, the Group had two sums of outstanding short-term bank loans with equal principal of RMB10 million each, which bore interest at 6.435% per annum and were guaranteed by Qware Science and Zheda Science & Technology Co. Ltd. (浙江浙大網新科技股份有限公司) (“Zheda Science”) respectively. Zhejiang Innovation, an Initial Management Shareholder of the Company, is a shareholder of Zheda Science and Qware Science is a subsidiary of Zheda Science. Zheda Science is a listed company in the PRC and is involved in the business of hardware distribution, software development and system integration. As the Company has the same beneficial shareholder as Qware Science and Zheda Science, the Company maintains good relationship with Qware Science and Zheda Science. As such, Qware Science and Zheda Science provided guarantees for the Group’s bank loan facilities. On 22nd March, 2002, Zheda Science was released as a guarantor of the Group, as Zhejiang Innovation, being the single largest shareholder of Zheda Science, would rather Zheda Science not take the risk as the Group’s guarantor, which might affect the trading of Zheda Science’s shares in the PRC. On the same date, Zheda Science’s guarantee has been replaced by Zhejiang Innovation. Upon listing, the existing guarantees for the short-term loans will not be released and replaced by the Group’s guarantees. The short-term bank loans, repayable on 16th August, 2002 and 10th September, 2002 respectively, were mainly used as working capital bridge loan for the Group. The short-term bank loans will be repaid upon maturity from internal financial resources of the Group. The Group intends to finance its operation by internally generated resources thereafter.

Disclaimer

Except as otherwise disclosed herein and apart from intra-group liabilities and normal trade payables, as at the close of business on 28th February, 2002, none of the companies comprising the Group had any outstanding mortgages, charges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptance credits or any guarantees or other material contingent liabilities.

Same as disclosed above, there has been no material change in the indebtedness and contingent liabilities of the Company and its subsidiaries since 28th February, 2002.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors have confirmed that as at 28th February, 2002, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowings

The Group generally finances its operations with equity fundings and short-term bank loans.

As at the close of business on 28th February, 2002, the Group’s indebtedness comprised two sums of outstanding short-term bank loans with equal principal amounting to RMB10 million each.

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Contingent liabilities

As at 28th February, 2002, the Group had no contingent liabilities.

Commitments

The Group and Zhejiang University had entered into an agreement dated 24th September, 2001 to establish the Research Center to conduct R&D on telecommunications software. Under the agreement, the Group will provide funding to the Research Center of not less than RMB1 million per annum as R&D expenditures for a period of five years starting 1st January, 2002. The software developed shall be jointly owned by both parties.

As at 28th February, 2002, the total future minimum lease payments under non-cancelable operating leases were as follows:

	<i>RMB'000</i>
Not later than one year	502
Later than one year and not later than five years	<u>349</u>
	<u>851</u>

Net current assets

As at 28th February, 2002, the Group had net current assets of approximately RMB33.6 million. The current assets comprised of cash and cash equivalents of approximately RMB20.5 million, net accounts receivable of approximately RMB31.0 million, net inventories of approximately RMB4.0 million and prepayments and other current assets of approximately RMB11.2 million. The current liabilities comprised of short-term bank loans of RMB20.0 million, accounts payable of approximately RMB4.2 million, taxes payable of approximately RMB4.6 million, accruals and other payables of approximately RMB1.6 million and advances from customers of approximately RMB2.7 million.

Working capital

The Group services its debts primarily through cash generated from its operations. As at 28th February, 2002, the Group had cash and bank balances of approximately RMB20.5 million and taking into consideration the financial resources available to the Group, including internally generated funds, the available banking facilities and net proceeds of the Placing, the Directors are of the view that the Group has sufficient working capital for its present requirements.

Foreign exchange

The Directors do not consider that the Group is exposed to any material foreign currency exchange risk, since substantially all of the Group's revenue is in Renminbi and its expenses are paid in RMB.

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TRADING RECORD

The following table summarizes the Group's consolidated income statements for each of the three years ended 31st December, 2001. The following summary is prepared based on the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

	For the year ended 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Turnover (<i>Note 1</i>)	4,621	23,151	64,199
Cost of sales	<u>(2,469)</u>	<u>(17,047)</u>	<u>(36,583)</u>
Gross profit	2,152	6,104	27,616
Operating expenses			
Selling expenses	(1,207)	(1,671)	(2,842)
General and administrative expenses	(2,509)	(2,274)	(6,766)
Other expenses, net	<u>(3)</u>	<u>(10)</u>	<u>(15)</u>
(Loss)/profit from operations	(1,567)	2,149	17,993
Finance income/(costs), net	7	9	(198)
Loss from an associate (<i>Note 2</i>)	<u>—</u>	<u>(53)</u>	<u>(307)</u>
(Loss)/profit before taxation and minority interests	(1,560)	2,105	17,488
Income tax expenses	<u>189</u>	<u>(326)</u>	<u>(2,987)</u>
(Loss)/profit after taxation but before minority interests	(1,371)	1,779	14,501
Minority interests	<u>—</u>	<u>24</u>	<u>338</u>
Net (loss)/profit	<u>(1,371)</u>	<u>1,803</u>	<u>14,839</u>
Dividends	<u>—</u>	<u>—</u>	<u>459</u>
(Loss)/earnings per share (<i>Note 3</i>)			
— Basic	<u>(RMB0.006)</u>	<u>RMB0.008</u>	<u>RMB0.065</u>
— Diluted	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>

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Notes:

- The Group is principally engaged in the provision of telecommunications solutions for telecommunications operators, ISPs and ICPs. Provision of telecommunications solutions involves the designing, planning, installation and implementation of network communication projects, which consists of sales of networking hardware and software and provision of technical support services. Commencing from the year ended 31st December, 2001, the Group also carries on the business of trading of computer hardware, which involves the selling of networking equipment through third party sub-distributors to telecommunications operators, who are the end-users.

Turnover represents revenue from sales of hardware and software, and revenue from provision of technical support services, after excluding applicable business tax and value-added tax. An analysis of the turnover and cost of sales of the Group for the Relevant Periods is set out as follows:

	For the years ended 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Turnover			
Provision of telecommunications solutions			
— sale of software	1,810	8,120	19,069
— sale of hardware	1,460	12,370	27,487
— provision of technical support services	1,351	2,661	8,462
	4,621	23,151	55,018
Trading of hardware	—	—	9,181
	4,621	23,151	64,199
Cost of sales			
Provision of telecommunications solutions			
— sale of software	479	4,737	2,297
— sale of hardware	1,362	11,386	24,683
— provision of technical support services	628	924	1,483
	2,469	17,047	28,463
Trading of hardware	—	—	8,120
	2,469	17,047	36,583

- Loss from an associate comprises of share of loss from and provision for impairment of the investment in Hangzhou Tour. The Group invested RMB360,000 in Hangzhou Tour in 2000, representing 24% equity interest therein and had planned to expand business in electronic commercial services. However, the results of operations of Hangzhou Tour were not satisfactory and this associate reported recurring losses for the two years ended 31st December, 2001. Based on management's estimate for Hangzhou Tour's future operation, full provision has been made to the investment in Hangzhou Tour as at 31st December, 2001.
- (Loss)/earnings per share have been computed by dividing net (loss)/profit for each of the Relevant Periods by the number of 227,452,000 Shares in issue as if the sub-division of the Company's Shares as described in Appendix VI "Statutory and general information" to this prospectus had taken place at the beginning of the Relevant Periods and as if those Shares had been issued and outstanding throughout the Relevant Periods. No diluted (loss)/earnings per share were presented as there were no dilutive potential ordinary shares issued for each of the Relevant Periods.

MANAGEMENT DISCUSSIONS AND ANALYSIS

General

The Group is principally engaged in the provision of telecommunications solutions for telecommunications operators, ISPs and ICPs. Provision of telecommunications solutions involves

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designing, planning, installation and implementation of network communication projects, which consists of sales of networking hardware and software and provision of technical support services. In line with industry performance, hardware sales normally have a low and relatively uniform gross profit margin. On the other hand, software sales and provision of technical support services normally enjoy a much higher gross margin, which vary among different projects.

Financial year ended 31st December, 1999

For the year ended 31st December, 1999, the Group recorded a turnover of approximately RMB4.62 million, contributed mainly from the sale of wireless communication solutions and data switch platforms. Among the total turnover from provision of telecommunications solutions, sale of software, sale of hardware and revenue from technical support services totaled approximately RMB1.81 million (approximately 39.2% of turnover), RMB1.46 million (31.6% of turnover) and RMB1.35 million (29.2% of turnover) respectively. The gross profit margins for software, hardware and technical support services were approximately 73.5%, 6.7% and 53.5%, respectively during the year. The Group had signed several contracts with a major customer in late 1999; however, the customer had been undergoing corporate restructuring during the year and the Group had not been able to render its services worth in accumulation of approximately RMB11.56 million during the financial year. The Group recorded a gross profit of approximately RMB2.15 million and a gross margin of approximately 46.6%.

The majority of the Group's operating expenses was attributed to general and administrative expenses of approximately RMB2.51 million, which mainly comprised of traveling, entertainment expenses, a fair share of staff costs, bad debt provisions, property rents, communication expenses and utility expenses. The Group did not incur any emoluments of directors and supervisors in 1999 as none of the Group's directors and supervisors required any emoluments, which allowed the Group to leverage the expansion of its business on those potential expenses saved. For the year ended 31st December, 1999, the Group incurred an operating loss of approximately RMB1.57 million and a net loss of approximately RMB1.37 million.

Financial year ended 31st December, 2000

For the year ended 31st December, 2000, the Group recorded a turnover of approximately RMB23.15 million, a growth of approximately 401.0% from the previous year. The tremendous growth in turnover was attributable to an increase in number of new clients as well as the completion of projects brought forward from the year 1999, in which the delay in rendering of services of approximately RMB11.56 million, was resulted from a customer's corporate restructure.

During the year, the Group continued to provide upgrades in data communication solutions to its clients. Among the total turnover from provision of telecommunications solutions, sale of software totaled approximately RMB8.12 million, representing a growth of approximately 348.6% from the previous year. The revenue from technical support services totaled approximately RMB2.66 million, representing a growth of approximately 97.0% from the previous year. The sale of hardware totaled approximately RMB12.37 million, representing a growth of approximately 747.3% from the previous year. The low gross profit margin of 26.4% reported for the year ended 31st December, 2000 is mainly attributable to the exceptionally low gross profit margin on software of approximately 41.7%, compared to approximately 73.5% in the previous year. In 2000, several projects incurred relatively higher software costs due to higher technical requirements, such as additional costs incurred from the involvement of outside sub-contractors, purchasing of additional software and additional staffs needed

for conducting on those projects. No similar projects existed in 1999 and 2001. Furthermore, the hardware mix of the turnover during the year increased to approximately 53.4%, compared to approximately 31.6% from the previous year, due to an increase in sales orders near the end of 2000, where the turnover recognised from those sales are mostly hardware.

During the year, the Group conducted research on a line of business to include a broader range of telecommunications solutions, namely the telecom office automation system and the broadband Internet CRM solutions, and had paid RMB1 million to Zhejiang University for their research service rendered. As a result, the R&D expenses increased by 198% over the previous year. The Group's clientele shifted to include larger provincial telecommunications operators and the larger provincial telecommunications operators, in general, offer larger size contracts in terms of monetary value than the Group's previous clients, which enabled the Group to limit its operating expense growth through efficient utilisation of its sales force. The Group's operating expenses increased only by approximately 6.3% in 2000, compared to the increase in turnover of approximately 401.0%. The Group's selling expenses rose by approximately 38.4% to approximately RMB1.67 million from the previous year, mainly attributed to the increase in traveling and entertainment expenses. The Group's general and administrative expenses declined slightly by approximately 9.4% to RMB2.27 million from the previous year, due to a zero bad debt provision that declined from RMB0.3 million. The Group recorded a net profit of approximately RMB1.80 million during the year. The Group did not incur any emoluments of directors and supervisors during the year, as none of the Group's directors and supervisors required any emoluments, which allowed the Group to leverage the expansion of its business on those potential expenses saved.

In order to expand business in electronic commercial services, the Group invested RMB360,000 in Hangzhou Tour, representing 24% equity interest in Hangzhou Tour. The share of loss of Hangzhou Tour attributable to the Group for the year ended 31st December, 2000 amounted to approximately RMB53,000.

Financial year ended 31st December, 2001

For the year ended 31st December, 2001, the Group continued to expand its range of telecommunications solutions and recorded a turnover from provision of telecommunications solutions of approximately RMB55.02 million, a growth of approximately 137.65% from the previous fiscal year. The sale of software totaled approximately RMB19.07 million, representing a growth of approximately 134.8% from the previous fiscal year. The sale of hardware totaled approximately RMB27.49 million, a growth of approximately 122.21% from the previous fiscal year. The revenue from technical support services totaled approximately RMB8.46 million, representing a growth of approximately 218.0% from the previous fiscal year. The Group's gross margin rose back to the level similar to that in 1999 to approximately 43.0% in 2001, as the Group did not incur any sales contracts that required significant additional costs from the involvement of outside sub-contractors. The gross profit margins for software, hardware and technical support services were approximately 88.0%, 10.2% and 82.5% respectively during the year, where the gross margin for software, in particular, had increased substantially without the exceptional software costs, such as the additional costs incurred from the involvement of outside sub-contractors, purchasing of additional software and additional staff needed for conducting R&D on specific projects. During the year, the Group commenced the business in the distribution of hardware products and achieved a turnover therefrom of approximately RMB9.18 million attributed to approximately 14.3% of the turnover for the year.

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The operating expenses continued to grow as business continued to expand at a rapid pace and totaled approximately RMB9.62 million during the year, a growth of approximately 143.3% from the previous fiscal year, in line with the growth of turnover for the year. Employee-related expenses increased by 83.0% over the previous year to RMB1.33 million as the Group increased its number of employees from 78 in 2000 to 155 in 2001 of which 31 of the R&D staff are part-time. For details on the deployment of human resources in the year ended 31st December, 2001, please refer to the section headed “Active Business Pursuits” in this prospectus. R&D expenses declined 30% as the Group did not incur any joint-R&D activities with Zhejiang University during the year. As a result, the Group achieved an operating profit of approximately RMB17.99 million, a growth of approximately 737.3% from the previous fiscal year and an operating margin of approximately 28.0%. Net profit totaled approximately RMB14.84 million, a growth of approximately 723.0% from the previous fiscal year and a net margin of approximately 23.1%. The Group incurred emoluments of directors and supervisors of approximately RMB0.35 million during the year as the Group hired additional directors and supervisors to assist in the Group’s expansion. The Directors expect that the emoluments of directors and supervisors for the next fiscal year will amount to approximately RMB0.56 million, as the Group continues use it expansion effort.

The results of operations of Hangzhou Tour were not satisfactory and incurred losses continuously in the year 2001. Based on management’s estimate for Hangzhou Tour’s future operation, full provision has been made for the Group’s investment in Hangzhou Tour, making the total loss from the associated company of approximately RMB307,000.

TAXATION

The Company has been classified as an Advanced Technology Enterprise by the Scientific Technology Committee of Zhejiang Province. As an enterprise incorporated in the National Advanced Technology Industry Development Area in Hangzhou, the Company is subject to enterprise income tax (“EIT”) at a rate of 15% in 2001. The Company is exempt from the 3% local tax. There is no time limit to such preferential tax treatment as long as the Company satisfies the aforesaid criteria.

The Company was subject to EIT at a rate of 33% prior to 2001. Pursuant to approvals from the Tax Bureau of Hangzhou, Zhejiang Province (the “relevant tax bureau”), the Company was entitled to full refund of EIT paid by the Company for the years of 1997 and 1998 and refund of 18% of the Company’s taxable income in respect of EIT paid for the years of 1999 and 2000. All tax refunds have been received by the Company in cash or by offsetting the tax payable and were recorded in the consolidated income statements in the periods to which the relevant EIT relates.

The subsidiaries of the Company are subject to EIT at a rate of 33%.

The Company reported a loss under the financial statements prepared on International Financial Reporting Standards for the year ended 31st December, 1999. However, it was subject to EIT under statutory accounts after adjusting taxable income or non-deductible expenses on a tax base, which led to the tax credits. The significant increase of income tax expenses for the year ended 31st December, 2001 was in line with the soaring income.

PROPERTY INTERESTS

The property interests of the Company were valued by Sallmanns (Far East) Limited, an independent property valuer as at 28th February, 2002. The text of the letter, summary of values and valuation certificate of Sallmanns (Far East) Limited are set out in Appendix II to this prospectus.

DIVIDENDS

The Company declared dividends of RMB459,600 to its owners in March 2001, and the dividends had been paid out in full on 23rd January, 2002. The Directors expect that the Company will retain all available funds for use in the operation and expansion of its business, and they do not anticipate paying cash dividends in the foreseeable future. The Board of Directors will determine the payment of any future dividends, subject to approval by shareholders at an annual general meeting. The declaration and payment of dividends will depend upon, among other things, future earnings, capital requirements, the Group's financial condition and general business conditions. Dividends for the H Shares, if any, will be declared in Renminbi and paid in Hong Kong dollars.

DISTRIBUTABLE RESERVES

As at 31st December, 2001, the amount of retained profits of the Company available for distribution as dividends, after the allocation of its profits to the statutory surplus reserve and statutory public welfare fund as required by the relevant PRC Company Law and the Articles of Association, amounted to approximately RMB10.3 million.

The statutory financial statements of the Company were prepared in accordance with the relevant accounting principles and the financial regulations applicable to joint stock limited companies in the PRC ("PRC Accounting Standards"). Upon the listing of the H Shares on the GEM, according to the relevant regulations in the PRC, the reserve available for distribution is the lower of the amount determined under PRC Accounting Standards and the amount determined under International Financial Reporting Standards.

STATUTORY RESERVES

Statutory surplus reserves

According to the Articles of Association and the articles of association of the Company's Subsidiaries and relevant PRC laws and regulations, when distributing the net profit of each year, the Company and its Subsidiaries shall set aside 10% of its net profit after tax (based on the Company's and its Subsidiaries' local statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company's and its Subsidiaries' paid-up capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.

Statutory public welfare fund

According to the Articles of Association and the articles of association of the Company's Subsidiaries and relevant PRC laws and regulations, the Company and its Subsidiaries shall appropriate 5% to 10% of its net profit after tax (based on the Company's and its Subsidiaries' local statutory accounts) as the statutory public welfare fund. The Directors shall have discretion in determining the percentage within the range specified by the relevant PRC laws and regulations. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

The Directors have resolved that the statutory public welfare fund is to be utilised to build or acquire capital items, such as dormitories and other facilities for the Company's and its Subsidiaries' employees, and cannot be used to pay for staff welfare expenses. Title to these capital items will remain with the Company and its Subsidiaries.

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ADJUSTED NET TANGIBLE ASSETS VALUE

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited net assets of the Group as at 31st December, 2001, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	<i>RMB'000</i>
Audited net assets of the Group as at 31st December, 2001	35,668
Less: Intangible assets — software	(1,664)
Add: Unaudited results for the two months ended 28th February, 2002 (<i>Note 1</i>)	1,343
Estimated net proceeds of the Placing (<i>Note 2</i>)	<u>84,800</u>
Adjusted net tangible assets	<u><u>120,147</u></u>
Adjusted net tangible asset value per Share (<i>Note 3</i>)	<u><u>RMB0.37</u></u>

Notes:

1. For the two months ended 28th February, 2002, the Group recorded an unaudited result with turnover and net profit of approximately RMB12.1 million and RMB1.3 million respectively. During the same period, the Group achieved gross profit margin and net profit margin of approximately 29.0% and 11.1% respectively. The reason for the decrease of the gross profit margin and net profit margin compared to the previous year was due to the increase in the sale of hardware in telecommunications solution projects and trading of hardware. The Directors consider that there was no significant fluctuation to the Group's financial performance for the two months ended 28th February, 2002.
2. The estimated net proceeds from the Placing are based on the Placing Price of HK\$0.95 per H Share (being the highest point of the indicative range of the Placing Price between HK\$0.77 and HK\$0.95 per H Share), and take no account of any H Shares which may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised in full, the estimated net proceeds of the Placing will be approximately HK\$93 million. The exchange rate is assumed at RMB1.06=HK\$1.00.
3. The adjusted net tangible asset value per Share is arrived at based on 324,952,000 Shares in issue immediately after the Placing and take no account of any additional H Shares to be issued pursuant to the Over-allotment Option.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31st December, 2001 (being the date on which the latest audited consolidated financial statements of the Group was made).

SPONSOR'S INTEREST

SPONSOR AGREEMENT

CPY has entered into the Sponsor Agreement with the Company whereby, for a fee, CPY will act as the Company's continuing sponsor for the period from the Listing Date until 31st December, 2004 (being the last day of the second full financial year of the Company after its listing on GEM).

SPONSOR'S INTEREST IN THE COMPANY

Save for its obligations under the Underwriting Agreement and the Sponsor Agreement, and interests in securities that may be subscribed for or purchased pursuant to the Placing, neither CPY nor its associates have or may have, as a result of the Placing, any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities).

No director or employee of CPY who is involved in providing advice to the Company has or may have, as a result of the Placing, any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Placing).

Neither CPY nor its associates have accrued any material benefit as a result of the successful outcome of the Placing, including by way of example, the repayment of material outstanding indebtedness or success fees save and except for the receipt of underwriting commission by CPY International as one of the Underwriters to the Placing and the financial advisory fee to be received by CPY, and save as otherwise disclosed in this prospectus.

No director or employee of CPY has a directorship in the Company.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriters

CPY International
First Shanghai Securities Limited
CAF Securities Company Limited
CM-CCS Securities Limited
MasterLink Securities (H.K.) Corp Ltd
Shun Loong Securities Co., Ltd.
Kingsway SW Securities Ltd
Tai Fook Securities Company Limited
YF Securities Company Limited

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares for subscription pursuant to the Placing. In addition, the Company has granted to CPY International, on behalf of the Underwriters, the Over-allotment Option which is exercisable by CPY International in its absolute discretion, on behalf of the Underwriters, within 30 days after the date of this prospectus.

Subject to (i) the GEM Listing Committee granting listing of, and permission to deal in, the H Shares to be issued as mentioned herein, and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional, on or before 24th May, 2002, the Underwriters have severally agreed to subscribe or procure subscribers to subscribe for the Placing Shares which have not been placed pursuant to the Placing.

Grounds for termination

The respective obligations of the Underwriters to subscribe or procure subscribers for the Placing Shares are subject to termination if, among others, in the reasonable opinion of CPY International (for itself and on behalf of the Underwriters) any of the following events occurs at any time prior to 9:00 p.m. on 2nd May, 2002:

1. there shall develop, occur, exist or come into effect:
 - (A) any breach of any of the warranties or any other provision of the Underwriting Agreement which is considered, in the reasonable opinion of CPY International, to be material in the context of the Placing; or
 - (B) any matter which, had it arisen immediately before the date of this prospectus, would have constituted a material omission in the reasonable opinion of CPY International in the context of the Placing; or
 - (C) any statement contained in this prospectus reasonably considered to be material by CPY International is discovered to be or becomes untrue, incorrect or misleading in any respect considered to be material; or

UNDERWRITING

- (D) any material change in or any event or series of events resulting in any change in local, national or international financial, political, economic, military, industrial, fiscal, regulatory, stock market, currency or market conditions (including without limitation the imposition of any moratorium, suspension or material restriction on trading in securities generally on Stock Exchange or any stock exchange in the PRC); or
- (E) the introduction of any new laws or any change in existing laws or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC or any other jurisdiction relevant to the Company; or
- (F) a general moratorium on commercial banking activities in New York, London or Hong Kong or the PRC declared by the relevant authorities; or
- (G) any change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong or the PRC or any jurisdiction relevant to the Company; or
- (H) any event or series of events of force majeure including, without limiting the generality thereof, any act of government, act of God, act of war, riot, public disorder, civil commotion, fire, flooding, explosion, epidemic, terrorism, strike or lock-out or interruption or delay in transportation; or
- (I) any material adverse change or prospective material adverse change in the business or in the financial or trading position of the Company; or
- (J) any litigation or claim of material importance of any third party being threatened or instigated against the Company; or
- (K) any other change whether or not ejusdem generis with any of the foregoing resulting in a material adverse change in political, economic or stock market conditions.

For the above purpose:

- (i) a material change in the system under which the value of the Hong Kong currency is linked to that of the currency of the USA or a material devaluation of the Renminbi against any foreign currencies shall be taken as an event resulting in a change in currency conditions; and
- (ii) any normal market fluctuations shall not be construed as events or a series of events affecting market conditions referred to above;

which, in the sole and reasonable opinion of CPY International (acting for itself and on behalf of the Underwriters):

- (a) is or will be, adverse, in any material respect, to the business, financial or other condition or prospects of the Company and its operating divisions taken as a whole; or

- (b) has or will have a material adverse effect on the success of the Placing or the level of the Placing Shares being applied for or accepted or the distribution of Placing Shares; or
- (c) for any other reason makes it impracticable, inadvisable or inexpedient to proceed with the Placing.

Undertakings

Under the GEM Listing Rules, no further Shares or securities convertible into equity securities of the Company (whether or not of a class already listed) may be issued or form the subject of agreements to issue within the first 6 months from the Listing Date, save in respect of any capitalisation issue or any consolidation, sub-division or capital reduction of Shares.

The Company has further undertaken in the Underwriting Agreement that, except pursuant to the Placing and the Over-allotment Option or the grant or the exercise of any option under the Share Option Scheme or otherwise approved by the Stock Exchange, it will not, without the prior written consent of CPY International (for itself and on behalf of the Underwriters) within six months from the Listing Date, issue or agree to issue any H Shares in or other securities of the Company or to grant or agree to grant any option or warrant or other rights carrying the right to subscribe for H Shares in or other securities of the Company.

Each of the Initial Management Shareholders of the Company has given undertakings regarding non-disposal of the relevant securities, details of which are set out in the sections headed “General overview of the Group” and “Substantial Shareholders and Initial Management Shareholders” to this prospectus.

Commission and expenses

The Underwriters will, in aggregate, receive a commission of 3.5% of the aggregate Placing Price of all the Placing Shares, out of which they will pay any other commission and selling commission in connection with the Placing. In addition, CPY will receive a financial advisory fee for providing advisory services in relation to the Placing. Such fee and commission, together with the Stock Exchange listing fees, the Stock Exchange trading fee, the Securities and Future Commission transaction levy, legal and other professional fees, printing and other expenses relating to the Placing which are currently estimated to be approximately HK\$12.6 million in aggregate, will be payable by the Company.

CPY entered into the Sponsor Agreement on 24th April, 2002 with the Company whereby, for a fee, CPY will act as the Company’s continuing sponsor until 31st December, 2004.

Sponsor’s and Underwriters’ interests in the Company

Save for (i) the obligations of the Sponsor and the Underwriters under the Underwriting Agreement; (ii) the advisors and documentation fee payable to the Sponsor as sponsor of the Placing; and (iii) the Sponsor’s interests under the Sponsor Agreement made between the Sponsor and the Company whereby the Sponsor will be retained as sponsor of the Company up to 31st December, 2004, none of the Sponsor or the Underwriters have any shareholding interests in the Company or have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Company or have any interest in the Placing.

STRUCTURE AND CONDITIONS OF THE PLACING

THE PLACING

Pricing of the H Shares of the purposes of the Placing will be fixed by agreement between the Company and CPY International before the Price Determination Time, which is at or before 12:00 noon on 25th April, 2002. If CPY International, on behalf of the Underwriters, and the Company are unable to reach an agreement on the Placing Price or a postponement of the Price Determination Time, the Placing will not proceed.

The Placing Price will be not more than HK\$0.95 and not less than HK\$0.77 per H Share.

Price payable on subscription

The Placing Price will be not less than HK\$0.77 and not more than HK\$0.95 per Placing Share. Based on the maximum Placing Price of HK\$0.95 per H Share plus 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.007% transaction levy payable to the Securities and Futures Commission, a total of HK\$4,798.07 is payable per board lot of 5,000 Placing Shares.

Placing

The Company is offering 97,500,000 Placing Shares for subscription by way of the Placing.

It is expected that the Underwriters or selling agents nominated by them on behalf of the Company will conditionally place the Placing Shares with selected professional, institutional and other investors. Professional, institutional and other investors generally refer to those whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

The Placing is subject to the conditions stated in the paragraph headed “Conditions of the Placing” below. The Placing is fully underwritten by the Underwriters, subject to the terms and conditions of the Underwriting Agreement.

CONDITIONS OF THE PLACING

Acceptance of applications for the Placing Shares are conditional upon:-

(a) Listing

The GEM Listing Committee granting listing of, and permission to deal in, the H Shares to be issued as mentioned herein; and

(b) Underwriting Agreement

The obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, following the waiver of any condition(s) by or for and on behalf of the Underwriters) on or before 24th May, 2002 and the Underwriting Agreement not being terminated in accordance with its terms or otherwise, on or before 9:00 p.m. on 2nd May, 2002.

STRUCTURE AND CONDITIONS OF THE PLACING

Any allotment made in respect of any applications will be void if permission for listing of, and dealing in, the H Shares on GEM has been refused before the expiration of three weeks from the close of subscription lists under the Placing or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to the Company by or on behalf of the Stock Exchange.

OVER-ALLOTMENT OPTION

Pursuant to the Underwriting Agreement, the Company has granted to CPY International (on behalf of the Underwriters) the right but not the obligation of the Over-allotment Option, exercisable within 30 days of the date of this prospectus, to require the Company to issue up to an aggregate of 14,625,000 additional Placing Shares, representing 15% of the number of H Shares initially available under the Placing. These Shares will be issued at the Placing Price for the purpose of covering over-allocations in the Placing. CPY International may cover such over-allocations by, among other means, purchasing H Shares in the secondary market or by a combination of purchases in the secondary market and exercise of the Over-allotment Option either in part or in full. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations. If the Over-allotment Option is exercised in full, the Placing Shares will represent approximately 33.02 per cent. of the enlarged issued share capital of the Company immediately after the completion of the Placing. In the event that the Over-allotment Option is exercised, an announcement will be made by the Company setting out the relevant details.

STABILISATION

In connection with the Placing, CPY International or its agents, on behalf of the Underwriters, may effect transactions which stabilise or maintain the market price of the H Shares at levels above those which might otherwise prevail in the open market. Such transactions (including any over-allotment purchase transactions) may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. Such stabilisation, if commenced, may be discontinued at any time.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, an underwriter may bid for or purchase the offered securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial price of the securities. The stabilisation price will not be higher than the Placing Price.

Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. Should stabilising transactions be effected in connection with the distribution of the Placing Shares, they will be done at the direction, and in the absolute discretion, of CPY International. In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where underwriters genuinely purchase shares in the secondary market effected solely for the purpose of covering over-allocations in the offering. The relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

STRUCTURE AND CONDITIONS OF THE PLACING

COMMENCEMENT OF DEALINGS IN H SHARES

Dealings in H Shares on the GEM is expected to commence on 3rd May, 2002. H Shares will be traded in board lots of 5,000 each.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares to be issued as described in this prospectus on the GEM by the Stock Exchange as well as the compliance with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or on any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.



ANDERSEN

Arthur Andersen & Co
21st Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

24th April, 2002

The Directors
Zheda Lande Scitech Limited
Core Pacific - Yamaichi Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to Zheda Lande Scitech Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the years ended 31st December, 1999, 2000 and 2001 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 24th April, 2002 (the “Prospectus”).

The Company was incorporated in the People’s Republic of China (the “PRC”) on 20th September, 2001 as a joint stock limited company. The Company is engaged in development and sale of software and network system, provision of technical support services and sale of hardware. The Company was formerly named as Hangzhou Land E&I Technology Limited and was established in the PRC on 13th November, 1996 with limited liability. The Company was reorganised and then incorporated into a joint stock limited company on 20th September, 2001. At the time of its establishment, the Company’s registered share capital was RMB22,745,200 divided into 22,745,200 ordinary shares at par value of RMB1 each. Pursuant to a resolution of the extraordinary general meeting of the Company dated 15th April, 2002, each of the Company’s Domestic Shares with nominal value of RMB1 each was sub-divided into 10 shares with nominal value of RMB0.1 each. As of the date of this report, the Company has direct or indirect interests in the following subsidiaries (collectively the “Subsidiaries”):

Name	Date and place of incorporation	Percentage of equity interest attributable to the Company Direct	Capital Registered RMB	Paid-up RMB	Principal activities
Chengdu Land E&I Technology Co. Ltd. (“Chengdu Land”) (Note 1)	23rd November, 2000 PRC	55%	500,000	500,000	Development of electronic information technology, sale of software and network system
Hangzhou Trust Communication Service Co. Ltd. (“Hangzhou Trust”) (Notes 1 and 2)	10th May, 2001 PRC	55%	1,000,000	1,000,000	Development of technology and computer consultancy service and development of information system

Name	Date and place of incorporation	Percentage of equity interest attributable to the Company Direct	Capital		Principal activities
			Registered RMB	Paid-up RMB	
Shanghai Langang Communication Technology Company Limited (“Shanghai Langang”) (Note 1)	10th December, 2001 PRC	51%	1,000,000	1,000,000	Development of computer, communication and net ware products

Note 1: All subsidiaries are companies with limited liability.

Note 2: In 2001, the Company invested RMB300,000 into Hangzhou Trust, representing 60% of registered capital of RMB500,000. On 25th January, 2002, the registered capital of Hangzhou Trust was increased from RMB500,000 to RMB1,000,000. The Company additionally invested RMB250,000 and held 55% of the increased registered capital.

The statutory financial statements of the Subsidiaries for the Relevant Periods were not audited because they were established either in late 2000 or in 2001.

The statutory financial statements of the Company before reorganised and then incorporated into a joint stock limited company for the two years ended 31st December, 2000, which were prepared in accordance with the requirements of Accounting Standards for Business Enterprise and relevant accounting regulations for technology enterprises, were audited by Zhejiang Zhongxi Certified Public Accountants. The Company was reorganised and then incorporated into a joint stock limited company on 20th September, 2001. The statutory consolidated financial statements of the Group and the statutory financial statements of the Company for the year ended 31st December, 2001, which were prepared in accordance with the relevant accounting principles and the financial regulations applicable to joint stock limited companies established in the PRC, were audited by Arthur Andersen • Hua Qiang Certified Public Accountants.

For the purpose of this report, we have performed an independent audit of the consolidated financial statements of the Group for the Relevant Periods, which were prepared in accordance with International Financial Reporting Standards (“IFRS”), as published by the International Accounting Standards Board (“IASB”). Such an audit was performed in accordance with the Auditing Standards issued by the Hong Kong Society of Accountants (“HKSA”), and we have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKSA.

The consolidated income statements for the Relevant Periods, the consolidated balance sheets of the Group and the balance sheets of the Company as of 31st December, 1999, 2000 and 2001, and the consolidated statements of changes in owners’ equity and cash flows of the Group for the Relevant Periods (collectively the “Summaries”), as set out respectively in Sections 2, 3, 4 and 5 below, have been prepared based on the statutory financial statements of the Group and the Company, and after making such adjustments as are considered appropriate.

The directors of the Group are responsible for preparing consolidated financial statements which give a true and fair view. In preparing these consolidated financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. The directors of the Group are also responsible for the Summaries. It is our responsibility to form an independent opinion on the Summaries.

In our opinion, the Summaries together with the notes thereon give, for the purpose of this report, a true and fair view of the consolidated results of operations and cash flows of the Group for the Relevant Periods, and of the financial position of the Group and the Company as of 31st December, 1999, 2000 and 2001.

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, are as follows:

(a) Basis of preparation

The Summaries are prepared in accordance with IFRS as the primary basis of accounting for the first time, as published by IASB, effective as of 31st December, 2001.

(b) Consolidation

The Summaries include the financial statements of the Company and Subsidiaries and also incorporate the Group's interest in an associate on the basis as set out in Note (d) below.

All intercompany balances and transactions, including intercompany profits and unrealised profits and losses, are eliminated on consolidation. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The equity and net income attributable to minority shareholders' interests are shown separately in the consolidated balance sheet and consolidated income statement respectively.

The purchase method of accounting is used for acquired businesses. Results of subsidiaries and associates acquired or disposed during the year are included in the consolidated financial statement from the date of acquisition or to the date of disposal.

(c) Subsidiaries

A subsidiary is a company over which the Company exercises control. Control exists when the Company has the power to govern the financial and operating policies of the subsidiary so as to obtain benefits from its activities.

In the Company's financial statements, investments in subsidiaries are accounted for using the equity method. An assessment of investments in subsidiaries is performed when there is an indication that the net asset has been impaired or the impairment losses recognised in prior years no longer exist.

(d) Associates

An associate is a company, not being a subsidiary, in which the Company has significant influence. Significant influence exists when the Company has the power to participate in, but not control, the financial and operating decisions of the associate.

Investment in an associate is accounted for using the equity method. An assessment of investment in an associate is performed when there is an indication that the net asset has been impaired or the impairment losses recognised in prior years no longer exist.

(e) Minority interests

Minority interests include their proportion of the fair values of identifiable assets and liabilities recognised upon acquisition of a subsidiary.

The losses applicable to the minority in a consolidated subsidiary may exceed the minority interest in the equity of the subsidiary. The excess, and any further losses applicable to the minority, are charged against the majority interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. If the subsidiary subsequently reports profits, the majority interest is allocated all such profits until the minority's share of losses previously absorbed by the majority has been recovered.

(f) Turnover and revenue recognition

Turnover represents revenue from sales of software and hardware, and revenue from technical support services and maintenance.

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following basis:

- (i) persuasive evidence of an arrangement exists;
- (ii) delivery has occurred or service has been performed;
- (iii) the vendor's fee is fixed or determinable; and
- (iv) collectibility is probable.

Revenue from sales of software is recognised as revenue based on the stage of completion. The stage of completion is determined by making reference to different testing stages as certified by the customers. When the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Revenue from sales of related hardware is recognised upon delivery of goods and when the titles are passed to the customers.

Revenue from technical support services include income from system integration services and maintenance. Revenue from technical support services is recognised when services have been performed. Revenue from maintenance is recognised on a straight-line basis over the assurance period.

Interest income from bank deposits is recognised on a time proportion basis that takes into account the effective yield on assets.

(g) Research and development costs

Expenditures for research and development are charged against income in the period incurred except for project development costs which comply strictly with the following criteria:

- (i) the product or process is clearly defined and costs are separately identified and measured reliably;
- (ii) the technical feasibility of the product is demonstrated;
- (iii) the product or process will be sold or used in-house;
- (iv) a potential market exists for the product or its usefulness in case of internal use is demonstrated; and
- (v) adequate technical, financial and other resources required for completion of the project are available.

Capitalisation of costs starts when the above criteria are first met.

Capitalised development costs are amortised on a straight-line basis over their expected useful lives when the assets are available for use. The period of amortisation does not normally exceed five years.

The recoverable amount of development costs is estimated whenever there is an indication that the asset has been impaired or that the impairment losses recognised in prior years no longer exist.

(h) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised at the weighted average cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowings are initially recognised at the proceeds received, net of transaction costs. They are subsequently carried at amortised costs using the effective interest rate method, the difference between net proceeds and redemption value being recognised in the net profit or loss for the period over the life of the borrowings.

(i) **Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment loss. The initial cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are recognised as expenses in the period in which they are incurred. In situations where it is probable that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of the assets.

Depreciation is provided on a straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account the estimated residual value. The estimated useful lives are as follows:

Leasehold improvements	3 years
Office furniture, fixture and other equipment	5 years
Motor vehicles	10 years

The useful life of assets and depreciation method are reviewed periodically.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposals is included in the consolidated income statement.

(j) **Intangible assets**

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses. Intangible assets are amortised on a straight-line basis over the best estimate of their useful lives. The amortisation period and the amortisation method are reviewed annually at each financial year-end.

Software

Cost of acquisition of new software is capitalised and treated as an intangible asset if the cost is not an integral part of the related hardware. Software is amortised on a straight-line basis over 3 years.

Costs incurred in order to restore or maintain the future economic benefits that an enterprise can expect from the originally assessed standard of performance of existing software systems are recognised as an expense when the restoration or maintenance work is carried out.

(k) Inventories

Inventories, included work-in-progress, are stated at the lower of cost and net realisable value. Cost, calculated on a weighted average basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as expenses in the period the write-down or losses occur. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(l) Receivables

Receivables are stated at fair value of the consideration given and are carried at amortised cost, after provision for doubtful accounts.

(m) Cash and cash equivalents

Cash represents cash in hand and deposits with banks which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

(n) Foreign currency transactions

Each entity in the Group maintains its books and records in Renminbi ("RMB"). Transactions in other currencies are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC Rates") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in other currencies are translated into RMB at the applicable PBOC Rates prevailing at the balance sheet dates. Non-monetary assets and liabilities in other currencies are translated at historical PBOC Rates.

Exchange differences arising on the settlement of monetary items or on reporting monetary items at rates different from those at which they were initially recorded during the periods or reported in previous financial statements are recognised in the income statements in the period in which they arise.

(o) Taxation

The Group provides for taxation on the basis of its income for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Deferred taxation is provided under the balance sheet liability method in respect of significant temporary differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purpose. Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that sufficient taxable profits will be available against which the deductible temporary difference can be utilised.

At each balance sheet date, the Group and Company re-assess unrecognised deferred tax assets and the carrying amount of deferred tax assets. The Group and company recognise a previously unrecognised deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. The Group and company conversely reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of deferred tax asset to be utilised.

(p) Operating leases

Leases are classified as operating leases whenever substantially all the risks and rewards incidental to ownership of the leased assets remain with the lessor.

Lease payments under operating leases are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term. Aggregate benefit of incentives on operating leases is recognised as a reduction of rental expense over the lease term on a straight-line basis.

(q) Retirement scheme

The Group's contributions to retirement scheme are charged to the consolidated income statements in the period to which they relate.

(r) Financial instruments

Financial assets and financial liabilities carried on the balance sheet include cash and cash equivalents, trade and other receivables and payables, and loans. The accounting policies on recognition and measurement of these items are disclosed in the respective accounting policies found in this section.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains, and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity. Financial instruments are offset when the Group has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

“Regular way” purchases and sales of financial assets are accounted for at settlement date.

(s) Impairment of assets

Property, plant and equipment, software and investments in subsidiaries and an associate are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in income statement. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

(t) Provisions

A provision is recognised when, and only when an enterprise has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

(u) Contingencies

Contingent liabilities are not recognised in the Summaries. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the Summaries but disclosed when an inflow of economic benefits is probable.

(v) Subsequent events

Post-year-end events, which provide additional information about a company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate, are referred to as adjusting events, and are reflected in the Summaries. Post-year-end events that are not adjusting events are disclosed in the notes when material.

2. CONSOLIDATED INCOME STATEMENTS

The following is the consolidated income statements of the Group for the Relevant Periods:

	<i>Notes</i>	For the years ended 31st December,		
		1999	2000	2001
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	(a)	4,621	23,151	64,199
Cost of sales	(a)	<u>(2,469)</u>	<u>(17,047)</u>	<u>(36,583)</u>
Gross profit		2,152	6,104	27,616
Selling expenses		(1,207)	(1,671)	(2,842)
General and administrative expenses		(2,509)	(2,274)	(6,766)
Other expenses, net		<u>(3)</u>	<u>(10)</u>	<u>(15)</u>
(Loss) profit from operations		(1,567)	2,149	17,993
Finance income (costs), net		7	9	(198)
Loss from an associate		<u>—</u>	<u>(53)</u>	<u>(307)</u>
(Loss) profit before taxation and minority interests	(b)	(1,560)	2,105	17,488
Income tax expenses	(c)	<u>189</u>	<u>(326)</u>	<u>(2,987)</u>
(Loss) profit after taxation but before minority interests		(1,371)	1,779	14,501
Minority interests		<u>—</u>	<u>24</u>	<u>338</u>
Net (loss) profit		<u>(1,371)</u>	<u>1,803</u>	<u>14,839</u>
Dividends	(d)	<u>—</u>	<u>—</u>	<u>459</u>
(Loss) earnings per share				
— Basic	(e)	<u>RMB(0.006)</u>	<u>RMB0.008</u>	<u>RMB0.065</u>
— Diluted	(e)	<u>Not applicable</u>	<u>Not applicable</u>	<u>Not applicable</u>

Notes:

(a) Turnover and cost of sales

	For the years ended 31st December,		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
Turnover			
Provision of telecommunications solutions			
— sale of software	1,810	8,120	19,069
— sale of hardware	1,460	12,370	27,487
— provision of technical support services	1,351	2,661	8,462
	4,621	23,151	55,018
Trading of hardware	—	—	9,181
	4,621	23,151	64,199
Cost of sales			
Provision of telecommunications solutions			
— sale of software	479	4,737	2,297
— sale of hardware	1,362	11,386	24,683
— provision of technical support services	628	924	1,483
	2,469	17,047	28,463
Trading of hardware	—	—	8,120
	2,469	17,047	36,583

(b) (Loss) profit before taxation and minority interests

(Loss) profit before taxation and minority interests was arrived at after crediting and charging the following:

	For the years ended 31st December,		
	1999 RMB'000	2000 RMB'000	2001 RMB'000
After crediting:			
Interest income	7	9	74
After charging:			
Cost of inventories expensed	2,469	17,047	36,583
Staff costs (including directors' and supervisors' emoluments)			
- Salaries, wages and other benefits	770	918	1,433
- Contributions to defined retirement schemes, See (g)	50	79	363
- Contributions to defined housing fund	23	37	61
Depreciation of property, plant and equipment	189	256	640
Amortisation of software	—	—	336
Research and development costs	500	1,490	1,043
Interest expense on bank loans	—	—	268
Operating lease rentals for office building	255	319	483
Provision for doubtful debts	203	—	521
Auditors' remuneration	3	3	10
Loss from an associate			
- share of loss	—	53	69
- impairment loss	—	—	238

(c) Taxation

(i) Income tax expenses

The Company has been classified as an Advanced Technology Enterprise by the Scientific Technology Committee of Zhejiang Province. As an enterprise incorporated in the National Advanced Technology Industry Development Area in Hangzhou, the Company is subject to Enterprise Income Tax (“EIT”) at a rate of 15% in 2001.

The Company was subject to EIT at a rate of 33% prior to 2001. Pursuant to approvals on 30th March, 1998, 15th July, 1999, 19th April, 2000 and 26th February, 2001 from the Tax Bureau of Hangzhou, Zhejiang Province (the “relevant tax bureau”), the Company was entitled to full refund of EIT paid by the Company for the years of 1997 and 1998 and refund of 18% of the Company’s taxable income in respect of EIT paid for the years of 1999 and 2000. The actual EIT paid was at 15% of its taxable income for the years of 1999 and 2000. All tax refunds have been received by the Company and were recorded in the consolidated income statements in the periods to which the relevant EIT relates. In 2001, no refund had been granted.

The Subsidiaries are subject to EIT at a rate of 33%.

Income tax expenses in the Relevant Periods are as follows:

	For the years ended 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Current income tax expenses	106	515	2,792
Deferred tax relating to the origination and reversal of temporary differences	(236)	106	195
EIT refund	(59)	(295)	—
	<u>(189)</u>	<u>326</u>	<u>2,987</u>

The reconciliation of the statutory tax expenses to the effective tax expenses for the Relevant Periods is as follows:

	For the years ended 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
(Loss) profit before taxation and minority interests	<u>(1,560)</u>	<u>2,105</u>	<u>17,488</u>
EIT at the statutory tax rate (the Company: 33% for the years ended 31st December, 1999 and 2000, 15% for 2001; the Subsidiaries: 33% for the Relevant Periods)	(515)	694	2,623
EIT refund	(59)	(295)	—
Deferred tax assets of deductible temporary differences not adjusted	32	(7)	8
Tax effect of temporary differences that are expected to reverse at a tax rate that is different from that in the prevailing year	321	(136)	—
Tax effect of expenses that are not deductible in determining taxable profit	<u>32</u>	<u>70</u>	<u>356</u>
Tax expense	<u>(189)</u>	<u>326</u>	<u>2,987</u>

As of 31st December, 1999, 2000 and 2001, there was no material unprovided deferred tax.

There were no Hong Kong profits tax liabilities as the Group did not earn any income assessable to Hong Kong profits tax.

(ii) *Value-added tax (“VAT”)*

The Company and Subsidiaries are subject to VAT for the sales of hardware. VAT is charged on the selling price at a general rate of 17%.

(iii) *Business tax (“BT”)*

The sales of software and revenue from technical support services arising from the technical service contract (the “relevant contract”) signed by the Group are subject to BT. The relevant contract is defined as “income from technology transfer” and these revenues from the relevant contract are exempt from BT after individually approved by the relevant tax bureau.

(d) **Dividends**

The Company has declared a dividend at 21% of its distributable retained profits based on the statutory financial statements as of 31st December, 2000 amounting to approximately RMB 459,600 to its owners in March, 2001. The dividend had been paid out in full on 23rd January, 2002.

(e) **(Loss) earnings per share**

(Loss) earnings per share have been computed by dividing net (loss) profit for each of the Relevant Periods by the number of 227,452,000 shares outstanding as of the date of this report as if the sub-division of the Company’s shares as described in Appendix VI “Statutory and general information” of the Prospectus had taken place at the beginning of the Relevant Periods and as if those shares had been issued and outstanding throughout the Relevant Periods.

No diluted (loss) earnings per share were presented as there were no dilutive potential ordinary shares issued for each of the Relevant Periods.

(f) **Directors, supervisors and senior executives’ emoluments**

(i) Details of the emoluments of the directors and supervisors of the Company were as follows:

	For the years ended 31st December,		
	1999	2000	2001
	RMB’000	RMB’000	RMB’000
Fees	—	—	—
Salaries, allowance and benefits in kind	—	—	340
Bonus	—	—	—
Retirement benefits	—	—	7
Others	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>347</u>

During the year ended 31st December, 2001, the five executive directors received emoluments of approximately RMB147,000, RMB113,000, RMB8,000, RMB4,000 and RMB2,000 respectively and each of the three independent non-executive directors received emoluments of approximately RMB3,000. Two supervisors received emoluments of approximately RMB42,000 and RMB22,000 respectively.

The number of directors and supervisors whose emoluments fell within the following band is as follows:

	For the years ended 31st December,		
	1999	2000	2001
Nil-RMB 1,000,000	<u>1</u>	<u>1</u>	<u>10</u>

- (ii) Details of emoluments of the five highest paid individuals (including directors, supervisors and employees) were as follows:

	For the years ended 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Fees	—	—	—
Salaries, allowance and benefits in kind	452	578	760
Bonus	—	—	—
Retirement benefits	14	15	17
Others	<u>—</u>	<u>—</u>	<u>—</u>
	<u>466</u>	<u>593</u>	<u>777</u>

The five individuals whose emoluments were the highest in the Group (including directors, supervisors and employees) were as follows:

	For the years ended 31st December,		
	1999	2000	2001
Directors	—	—	2
Employees	<u>5</u>	<u>5</u>	<u>3</u>
Nil-RMB 1,000,000	<u>5</u>	<u>5</u>	<u>5</u>

During the Relevant Periods, no emoluments were paid by the Group to the directors or the supervisors or the other five highest-paid non-director and non-supervisor employees as an inducement to join or upon joining the Group, or as compensation for loss of office. There was no agreement under which a director or supervisor waived or agreed to waive any emoluments during the Relevant Periods.

(g) **Retirement benefits**

The Company and Subsidiaries participate in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Company and Subsidiaries are required to make monthly contributions to the retirement schemes up to the time of retirement of the eligible employees, at rates ranging from 20.6% to 23% of the local standard basic salaries. The local government authorities are responsible for the pension liabilities to these retired employees.

As of 31st December, 2001, the Group had no significant obligation apart from the contribution as stated above.

Details of the pension contributions made by the Group, which have been dealt with in the consolidated income statements of the Group for the Relevant Periods, were as follows:

	For the years ended 31st December,		
	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contributions to retirement schemes (see (b))	50	79	363

(h) **Related party transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

During the Relevant Periods, the Group had no significant transactions with related parties.

3. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY

The following is the consolidated balance sheets of the Group and the balance sheets of the Company as of 31st December, 1999, 2000 and 2001:

Consolidated balance sheets

		As of 31st December,		
	Notes	1999 RMB'000	2000 RMB'000	2001 RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment, net	(a)	896	2,058	2,758
Software	(b)	—	130	1,664
Investment in an associate	(d)	—	307	—
Deferred tax assets	(e)	269	163	—
		<u>1,165</u>	<u>2,658</u>	<u>4,422</u>
CURRENT ASSETS				
Inventories, net	(f)	8,057	10,960	5,677
Accounts receivable, net	(g)	490	2,253	32,042
Prepayments and other current assets	(h)	3,472	2,216	9,173
Prepaid value-added tax	(l)	828	1,112	—
Cash and cash equivalents	(i)	1,967	6,071	17,997
		<u>14,814</u>	<u>22,612</u>	<u>64,889</u>
TOTAL CURRENT ASSETS				
		<u>14,814</u>	<u>22,612</u>	<u>64,889</u>
CURRENT LIABILITIES				
Short-term bank loans	(j)	—	—	20,000
Accounts payable	(k)	1,026	3,308	2,240
Dividends payable		—	—	459
Advances from customers	(m)	11,165	10,756	5,880
Taxes payable	(l)	63	377	3,558
Accruals and other payables	(n)	1,901	7,001	924
		<u>14,155</u>	<u>21,442</u>	<u>33,061</u>
TOTAL CURRENT LIABILITIES				
		<u>14,155</u>	<u>21,442</u>	<u>33,061</u>
NET CURRENT ASSETS				
		<u>659</u>	<u>1,170</u>	<u>31,828</u>
DEFERRED TAX LIABILITIES				
	(e)	—	—	32
MINORITY INTERESTS				
		<u>—</u>	<u>201</u>	<u>550</u>
NET ASSETS				
		<u>1,824</u>	<u>3,627</u>	<u>35,668</u>
OWNERS' EQUITY				
Paid-in capital/share capital	4(a)	500	500	22,745
Reserves	4(b)	1,324	3,127	12,923
		<u>1,824</u>	<u>3,627</u>	<u>35,668</u>
TOTAL OWNERS' EQUITY				
		1,824	3,627	35,668

Balance sheets

	<i>Notes</i>	As of 31st December,		
		1999	2000	2001
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS				
Property, plant and equipment, net	(a)	896	2,036	2,669
Software	(b)	—	130	1,664
Investment in subsidiaries	(c)	—	245	639
Investment in an associate	(d)	—	307	—
Deferred tax assets	(e)	269	163	—
		<u>1,165</u>	<u>2,881</u>	<u>4,972</u>
CURRENT ASSETS				
Inventories, net	(f)	8,057	10,936	5,093
Accounts receivable, net	(g)	490	2,253	31,880
Prepayments and other current assets	(h)	3,472	2,194	9,351
Prepaid value-added tax	(l)	828	1,112	—
Cash and cash equivalents	(i)	1,967	5,690	16,470
		<u>14,814</u>	<u>22,185</u>	<u>62,794</u>
CURRENT LIABILITIES				
Short-term bank loans	(j)	—	—	20,000
Accounts payable	(k)	1,026	3,308	2,135
Dividend payable		—	—	459
Advances from customers	(m)	11,165	10,756	4,992
Taxes payable	(l)	63	377	3,672
Accruals and other payables	(n)	1,901	6,998	808
		<u>14,155</u>	<u>21,439</u>	<u>32,066</u>
TOTAL CURRENT LIABILITIES				
		<u>14,155</u>	<u>21,439</u>	<u>32,066</u>
NET CURRENT ASSETS				
		<u>659</u>	<u>746</u>	<u>30,728</u>
DEFERRED TAX LIABILITIES				
	(e)	—	—	32
NET ASSETS				
		<u>1,824</u>	<u>3,627</u>	<u>35,668</u>
OWNERS' EQUITY				
Paid-in capital/share capital	4(a)	500	500	22,745
Reserves	4(b)	1,324	3,127	12,923
		<u>1,824</u>	<u>3,627</u>	<u>35,668</u>
TOTAL OWNERS' EQUITY				
		<u>1,824</u>	<u>3,627</u>	<u>35,668</u>

Notes:

(a) Property, plant and equipment, net

Group

	Motor vehicles <i>RMB'000</i>	Office furniture, fixtures and other equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
<u>Cost</u>				
As of 1st January, 2001	988	799	826	2,613
Additions	<u>657</u>	<u>319</u>	<u>364</u>	<u>1,340</u>
As of 31st December, 2001	<u>1,645</u>	<u>1,118</u>	<u>1,190</u>	<u>3,953</u>
<u>Accumulated depreciation</u>				
As of 1st January, 2001	91	229	235	555
Charge for the year	<u>146</u>	<u>175</u>	<u>319</u>	<u>640</u>
As of 31st December, 2001	<u>237</u>	<u>404</u>	<u>554</u>	<u>1,195</u>
<u>Net book value</u>				
As of 1st January, 2001	<u>897</u>	<u>570</u>	<u>591</u>	<u>2,058</u>
As of 31st December, 2001	<u>1,408</u>	<u>714</u>	<u>636</u>	<u>2,758</u>

	Motor vehicles <i>RMB'000</i>	Office furniture, fixtures and other equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
<u>Cost</u>				
As of 1st January, 2000	646	289	260	1,195
Additions	<u>342</u>	<u>510</u>	<u>566</u>	<u>1,418</u>
As of 31st December, 2000	<u>988</u>	<u>799</u>	<u>826</u>	<u>2,613</u>
<u>Accumulated depreciation</u>				
As of 1st January, 2000	18	114	167	299
Charge for the year	<u>73</u>	<u>115</u>	<u>68</u>	<u>256</u>
As of 31st December, 2000	<u>91</u>	<u>229</u>	<u>235</u>	<u>555</u>
<u>Net book value</u>				
As of 1st January, 2000	<u>628</u>	<u>175</u>	<u>93</u>	<u>896</u>
As of 31st December, 2000	<u>897</u>	<u>570</u>	<u>591</u>	<u>2,058</u>

	Motor vehicles <i>RMB'000</i>	Office furniture, fixtures and other equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
<u>Cost</u>				
As of 1st January, 1999	463	222	260	945
Additions	<u>183</u>	<u>67</u>	<u>—</u>	<u>250</u>
As of 31st December, 1999	<u>646</u>	<u>289</u>	<u>260</u>	<u>1,195</u>
<u>Accumulated depreciation</u>				
As of 1st January, 1999	18	23	69	110
Charge for the year	<u>—</u>	<u>91</u>	<u>98</u>	<u>189</u>
As of 31st December, 1999	<u>18</u>	<u>114</u>	<u>167</u>	<u>299</u>
<u>Net book value</u>				
As of 1st January, 1999	<u>445</u>	<u>199</u>	<u>191</u>	<u>835</u>
As of 31st December, 1999	<u>628</u>	<u>175</u>	<u>93</u>	<u>896</u>

Company

	Motor vehicles <i>RMB'000</i>	Office furniture, fixtures and other equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
<u>Cost</u>				
As of 1st January, 2001	988	777	826	2,591
Additions	<u>589</u>	<u>319</u>	<u>355</u>	<u>1,263</u>
As of 31st December, 2001	<u>1,577</u>	<u>1,096</u>	<u>1,181</u>	<u>3,854</u>
<u>Accumulated depreciation</u>				
As of 1st January, 2001	91	229	235	555
Charge for the year	<u>139</u>	<u>175</u>	<u>316</u>	<u>630</u>
As of 31st December, 2001	<u>230</u>	<u>404</u>	<u>551</u>	<u>1,185</u>
<u>Net book value</u>				
As of 1st January, 2001	<u>897</u>	<u>548</u>	<u>591</u>	<u>2,036</u>
As of 31st December, 2001	<u>1,347</u>	<u>692</u>	<u>630</u>	<u>2,669</u>

	Motor vehicles <i>RMB'000</i>	Office furniture, fixtures and other equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
<u>Cost</u>				
As of 1st January, 2000	646	289	260	1,195
Additions	<u>342</u>	<u>488</u>	<u>566</u>	<u>1,396</u>
As of 31st December, 2000	<u>988</u>	<u>777</u>	<u>826</u>	<u>2,591</u>
<u>Accumulated depreciation</u>				
As of 1st January, 2000	18	114	167	299
Charge for the year	<u>73</u>	<u>115</u>	<u>68</u>	<u>256</u>
As of 31st December, 2000	<u>91</u>	<u>229</u>	<u>235</u>	<u>555</u>
<u>Net book value</u>				
As of 1st January, 2000	<u>628</u>	<u>175</u>	<u>93</u>	<u>896</u>
As of 31st December, 2000	<u>897</u>	<u>548</u>	<u>591</u>	<u>2,036</u>

	Motor vehicles <i>RMB'000</i>	Office furniture, fixtures and other equipment <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Total <i>RMB'000</i>
<u>Cost</u>				
As of 1st January, 1999	463	222	260	945
Additions	<u>183</u>	<u>67</u>	<u>—</u>	<u>250</u>
As of 31st December, 1999	<u>646</u>	<u>289</u>	<u>260</u>	<u>1,195</u>
<u>Accumulated depreciation</u>				
As of 1st January, 1999	18	23	69	110
Charge for the year	<u>—</u>	<u>91</u>	<u>98</u>	<u>189</u>
As of 31st December, 1999	<u>18</u>	<u>114</u>	<u>167</u>	<u>299</u>
<u>Net book value</u>				
As of 1st January, 1999	<u>445</u>	<u>199</u>	<u>191</u>	<u>835</u>
As of 31st December, 1999	<u>628</u>	<u>175</u>	<u>93</u>	<u>896</u>

(b) Software

Software was purchased from a third party.

Group and Company

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
<u>Original cost</u>			
Beginning of year	—	—	130
Additions	<u>—</u>	<u>130</u>	<u>1,870</u>
End of year	<u>—</u>	<u>130</u>	<u>2,000</u>
<u>Accumulated amortization</u>			
Beginning of year	—	—	—
Charge for the year	<u>—</u>	<u>—</u>	<u>336</u>
End of year	<u>—</u>	<u>—</u>	<u>336</u>
<u>Net book value</u>			
Beginning of year	<u>—</u>	<u>—</u>	<u>130</u>
End of year	<u>—</u>	<u>130</u>	<u>1,664</u>

The amortisation of software was charged to general and administrative expenses.

(c) Investment in subsidiaries

Company

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Investment cost	—	275	1,085
Share of losses	—	(30)	(446)
	—	245	639

The Company’s directors are of the opinion that the underlying value of the Subsidiaries was not less than the Company’s carrying value of the Subsidiaries as of the end of the year.

(d) Investment in an associate

Group and Company

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Investment cost	—	360	360
Share of loss	—	(53)	(122)
Provision for impairment	—	—	(238)
	—	307	—

As of 31st December, 2000 and 2001, the Group and Company had the following associate established with limited liability:

Name	Date and place of incorporation	Percentage of equity interest attributable to the Company	Capital		Principal activities
			Registered	Paid-up	
		Direct	RMB	RMB	
Hangzhou Tour Electronic Commerce Co. Ltd. (“Hangzhou Tour”)	11th July, 2000 PRC	24%	1,500,000	1,500,000	Electronic commercial services related to tourism

(e) Deferred tax assets/Deferred tax liabilities

Group and Company

Movements of deferred tax assets are as follows:

	Temporary difference arising from recognition of revenue and related cost of sales	Others	Total
As of 1st January, 1999	8	25	33
Additions	233	19	252
Reversals	<u>—</u>	<u>(16)</u>	<u>(16)</u>
As of 31st December, 1999	241	28	269
Additions	41	(147)	(106)
Reversals	<u>—</u>	<u>—</u>	<u>—</u>
As of 31st December, 2000	282	(119)	163
Additions	—	—	—
Reversals	<u>(282)</u>	<u>87</u>	<u>(195)</u>
As of 31st December, 2001	<u>—</u>	<u>(32)</u>	<u>(32)</u>

As of 31st December, 2001, deferred tax liabilities mainly resulted from the temporary differences of capitalisation of software cost.

(f) Inventories, net

Group

	1999 RMB'000	As of 31st December, 2000 RMB'000	2001 RMB'000
Work-in-progress, at cost	<u>8,057</u>	<u>10,960</u>	<u>5,677</u>

Company

	1999 RMB'000	As of 31st December, 2000 RMB'000	2001 RMB'000
Work-in-progress, at cost	<u>8,057</u>	<u>10,936</u>	<u>5,093</u>

The Company's directors are of the opinion that the net realisable value of the inventory was not less than the carrying value as of year end.

(g) Accounts receivable, net

Group

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Accounts receivable	1,407	3,170	33,480
Less: Provision for doubtful accounts	<u>(917)</u>	<u>(917)</u>	<u>(1,438)</u>
	<u>490</u>	<u>2,253</u>	<u>32,042</u>

The Group generally gives credit term of 7 days to 20 days to the customers.

Aging analysis of accounts receivable was as follow:

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Aging:			
- not exceeding 3 months	287	2,468	22,977
- more than 3 months but not exceeding 6 months	—	—	6,055
- more than 6 months but not exceeding 9 months	—	—	1,194
- more than 9 months but not exceeding one year	—	—	586
- more than one year but not exceeding two years	197	144	2,460
- more than two years but not exceeding three years	208	126	—
- more than three years	<u>715</u>	<u>432</u>	<u>208</u>
	<u>1,407</u>	<u>3,170</u>	<u>33,480</u>

Company

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Accounts receivable	1,407	3,170	33,318
Less: Provision for doubtful accounts	<u>(917)</u>	<u>(917)</u>	<u>(1,438)</u>
	<u>490</u>	<u>2,253</u>	<u>31,880</u>

Aging analysis of accounts receivable was as follow:

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Aging:			
- not exceeding 3 months	287	2,468	22,815
- more than 3 months but not exceeding 6 months	—	—	6,055
- more than 6 months but not exceeding 9 months	—	—	1,194
- more than 9 months but not exceeding 12 months	—	—	586
- more than one year but not exceeding two years	197	144	2,460
- more than two years but not exceeding three years	208	126	—
- more than three years	715	432	208
	<u>1,407</u>	<u>3,170</u>	<u>33,318</u>

As of 31st December, 1999, 2000 and 2001, no material retention money were included in accounts receivable balances.

(h) Prepayments and other current assets

Group

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Prepayments	3,145	1,204	6,977
Advance to employees	128	348	480
Others	<u>199</u>	<u>664</u>	<u>1,716</u>
	<u>3,472</u>	<u>2,216</u>	<u>9,173</u>

Company

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Prepayments	3,145	1,204	6,786
Advance to employees	128	348	480
Others	<u>199</u>	<u>642</u>	<u>2,085</u>
	<u>3,472</u>	<u>2,194</u>	<u>9,351</u>

Advance to employees represented the cash advances to employees for their travelling expenses.

(i) Cash and cash equivalents

Group

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Cash on hand	13	20	40
Demand deposits	1,954	6,051	17,957
	<u>1,967</u>	<u>6,071</u>	<u>17,997</u>

Company

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Cash on hand	13	20	9
Demand deposits	1,954	5,670	16,461
	<u>1,967</u>	<u>5,690</u>	<u>16,470</u>

(j) Short-term bank loans

As of 31st December, 2001, the Company had two sums of short-term bank loans with equal principal amounting to RMB10 million and interest rate at 6.435% per annum and those loans were guaranteed by Zhejiang University Qware Science Co. Ltd. (“Qware Science”) and Zheda Science & Technology Co. Ltd. (“Zheda Science”) respectively. Zheda Science is the major shareholder of Qware Science. Zheda Science and the Company have a common shareholder, Zhejiang University Innovation Information Holdings Company Limited (“Zhejiang Innovation”). On 22nd March, 2002, Zheda Science was released as a guarantor of the Company, as Zhejiang Innovation, being the single largest shareholder of Zheda Science, would rather Zheda Science not take the risk as the Company’s guarantor, which might affect the trading of Zheda Science’s shares in the PRC. On the same date, Zheda Science’s guarantee has been replaced by Zhejiang Innovation. The short-term bank loans will be due on 16th August, 2002 and 10th September, 2002 respectively.

(k) Accounts payable

Group

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Aging			
- Within three months	<u>1,026</u>	<u>3,308</u>	<u>2,240</u>

Company

	1999	As of 31st December, 2000	2001
	RMB'000	RMB'000	RMB'000
Aging			
- Within three months	1,026	3,308	2,135

(l) Prepaid value-added tax and taxes payable

Group

	1999	As of 31st December, 2000	2001
	RMB'000	RMB'000	RMB'000
Prepaid value-added tax	828	1,112	—
EIT payable	62	376	1,905
VAT payable	—	—	1,517
Others	1	1	136
Taxes payable	63	377	3,558

Company

	1999	As of 31st December, 2000	2001
	RMB'000	RMB'000	RMB'000
Prepaid value-added tax	828	1,112	—
EIT payable	62	376	1,659
VAT payable	—	—	1,876
Others	1	1	137
Taxes payable	63	377	3,672

(m) Advances from customers

Advances from customers represented advance payment received from provision of telecommunications solutions.

(n) Accruals and other payables

As of 31st December, 2000, the significant accruals and other payables balance mainly included strategic funds totalling RMB6 million from Qware Science and Beijing Guoheng High Technology Holding Co., Ltd..

4. CONSOLIDATED STATEMENTS OF CHANGES IN OWNERS’ EQUITY

	Reserves						Total
	Paid-in	Capital	Statutory	Statutory	Tax	Retained	
	capital/share						
	capital	surplus	reserve	welfare	reserve	(Accumulated	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(a)	(a)	(b)(i)	(b)(i)	(b)(ii)		
Balance as of							
1st January, 1999	500	—	240	121	38	2,296	3,195
Net loss	—	—	—	—	—	(1,371)	(1,371)
Appropriation from retained profits	—	—	12	12	1,337	(1,361)	—
Balance as of							
31st December, 1999	500	—	252	133	1,375	(436)	1,824
Net profit	—	—	—	—	—	1,803	1,803
Appropriation from retained profits	—	—	94	94	59	(247)	—
Balance as of							
31st December, 2000	500	—	346	227	1,434	1,120	3,627
Net profit	—	—	—	—	—	14,839	14,839
Appropriation from retained profits	—	—	1,306	1,306	295	(2,907)	—
Dividends	—	—	—	—	—	(459)	(459)
Increase of paid-in capital during the year	2,206	15,455	—	—	—	—	17,661
Capitalisation of tax refund reserve and retained profits	1,839	—	—	—	(115)	(1,724)	—
Capitalisation of paid-in capital and reserve	18,200	(15,455)	(346)	(227)	(1,614)	(558)	—
Balance as of							
31st December, 2001	22,745	—	1,306	1,306	—	10,311	35,668

Notes:

(a) **Paid-in capital/Share capital**

The details of paid-in capital/share capital were as follows:

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Registered	<u>500</u>	<u>500</u>	<u>22,745</u>
Paid-up	<u>500</u>	<u>500</u>	<u>22,745</u>

On 15th March, 2001, additional capital of RMB2,000,000 was paid up by capitalisation of the tax refund reserve and retained profits amounting to approximately RMB1,839,000 and cash contribution of approximately RMB161,000 from the then investors.

On 19th April, 2001, certain new investors contributed a total cash consideration of RMB17,500,000 in return for a paid-up capital of RMB2,045,400. The difference between the cash consideration received and the additional paid-in capital recorded of RMB15,454,600 was credited to capital surplus.

The Company was reorganised and then incorporated into a joint stock limited company on 20th September, 2001. 22,745,200 ordinary shares of par value RMB1 were issued to the then shareholders based on their respective equity ratio by capitalisation of all the reserves of the Company as of 30th June, 2001 in the statutory financial statements. The capitalisation of tax refund reserves has been approved by Hangzhou Finance Bureau and Hangzhou Administrative Bureau of State-owned assets.

(b) **Reserves**

(i) *Statutory reserves*

Statutory surplus reserves

According to the articles of association of the Company and Subsidiaries and relevant PRC laws and regulations, when distributing the net profit of each year, the Company and Subsidiaries shall set aside 10% of its net profit after tax (based on the Company’s and Subsidiaries’ local statutory accounts) for the statutory surplus reserve fund (except where the reserve balance has reached 50% of the Company’s and Subsidiaries’ paid-up capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.

Statutory public welfare fund

According to the articles of association of the Company and Subsidiaries and relevant PRC laws and regulations, the Company and Subsidiaries shall appropriate 5% to 10% of its net profit after tax (based on the Company’s and Subsidiaries’ local statutory accounts) as the statutory public welfare fund. The Directors shall have discretion in determining the percentage within the range specified by the relevant PRC laws and regulations. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

The directors have resolved that the statutory public welfare fund is to be utilised to build or acquire capital items, such as dormitories and other facilities for the Company's and Subsidiaries' employees, and cannot be used to pay for staff welfare expenses. Title to these capital items will remain with the Company and Subsidiaries.

For the year ended 31st December, 2001, the directors proposed appropriations of 10% and 10% (2000 and 1999: 10% and 10%) of net profit after tax, determined under PRC accounting standards, totalling RMB1,306,395 and RMB1,306,395 (2000: RMB94,011 and RMB94,011; 1999: RMB11,966 and RMB11,967) to the statutory surplus reserve fund and statutory public welfare fund, respectively.

(ii) *Tax refund reserve*

Tax refund reserve represents EIT refund received by the Company, which was transferred from retained profits based on the amount received by the Company because of its restriction in usage. The reserve fund can only be used for the expansion of the operation of the Company.

Upon incorporation of the Company on 20th September, 2001, all the reserves as of 30th June, 2001, including capital surplus amounting to approximately RMB15,455,000, statutory surplus reserves amounting to approximately RMB346,000, statutory public welfare fund amounting to approximately RMB227,000, tax refund reserve amounting to approximately RMB1,614,000 and retained profits amounting to approximately RMB558,000 respectively, have been capitalised as share capital.

(iii) *Distributable reserves*

Distributable reserves of the Company as of 31st December, 2000 and 2001 were approximately RMB1.1 million and RMB10.3 million respectively.

5. CONSOLIDATED STATEMENTS OF CASH FLOW

The following is the consolidated statements of cash flow of the Group for the Relevant Periods:

	For the years ended 31st December,		
	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash generated from (used in) operations	1,539	(18)	(15,936)
Income taxes paid	<u>(44)</u>	<u>(143)</u>	<u>(1,265)</u>
Net cash generated from (used in) operating activities	<u>1,495</u>	<u>(161)</u>	<u>(17,201)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Increase in investment in an associate	—	(360)	—
Purchase of property, plant and equipment and software	(72)	(1,609)	(3,057)
Interest received	7	9	74
Interest paid	<u>—</u>	<u>—</u>	<u>(241)</u>
Net cash used in investing activities	<u>(65)</u>	<u>(1,960)</u>	<u>(3,224)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from short-term bank loans	—	—	20,000
Proceeds from issuance of capital	—	6,000	11,661
Capital contributed by minority shareholders of subsidiaries	<u>—</u>	<u>225</u>	<u>690</u>
Net cash from financing activities	<u>—</u>	<u>6,225</u>	<u>32,351</u>
Net increase in cash and cash equivalents	1,430	4,104	11,926
Cash and cash equivalents at beginning of year	<u>537</u>	<u>1,967</u>	<u>6,071</u>
Cash and cash equivalents at end of year	<u><u>1,967</u></u>	<u><u>6,071</u></u>	<u><u>17,997</u></u>

Reconciliation from (loss) profit before taxation and minority interests to cash generated from (used in) operations:

	For the years ended 31st December,		
	1999	2000	2001
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES:			
(Loss) profit before taxation and minority interests	(1,560)	2,105	17,488
Adjustments for:			
Provision for doubtful debts	203	—	521
Provision for impairment loss of investment in an associate	—	—	238
Depreciation of property, plant and equipment	189	256	640
Amortisation of software	—	—	336
Interest income	(7)	(9)	(74)
Interest expenses	—	—	268
Share of loss from an associate	—	53	69
Operating (loss) profit before working capital changes	<u>(1,175)</u>	<u>2,405</u>	<u>19,486</u>
(Increase) decrease in inventories	(7,379)	(2,903)	5,283
Decrease (increase) in accounts receivable	1,704	(1,763)	(30,310)
(Increase) decrease in prepayments and other current assets	(1,931)	1,267	(5,844)
Increase (decrease) in accounts payable	1,026	2,282	(1,067)
Increase (decrease) in other current liabilities	<u>9,294</u>	<u>(1,306)</u>	<u>(3,484)</u>
Cash generated from (used in) operations	<u>1,539</u>	<u>(18)</u>	<u>(15,936)</u>

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Fair value

The following methods and assumptions were used to estimate the fair value of each major class of the Group's financial instruments for which it is practicable to estimate that value:

(i) *Cash and cash equivalents*

The carrying amount approximates fair value because these assets either carry a current rate of interest or have a short period of time between the origination of the cash deposits and their expected maturity.

(ii) *Accounts receivable, other current assets, accounts payable, advances from customers, accruals and other payables*

The carrying amount of these items approximates fair value because these are subject to normal trade credit terms with the short maturities.

(iii) *Short-term bank loan*

The carrying amount of short-term bank loan approximates fair value because of the short maturities of the instruments.

(b) Risk management objectives and policies

(i) *Credit risk*

Credit risks, or the risk of counterparties defaulting, are controlled by the application of credit terms and monitoring procedures.

The carrying amounts of cash and cash equivalents, accounts receivable, and other current assets represent the Group's maximum exposure to credit risk in relation to financial assets. No other financial assets carry a significant exposure to credit risk.

The Group has significant accounts receivable from the debtors engaged in the telecommunication industry. The collectibility of those accounts receivable may be adversely affected by economic changes in the telecommunication industry.

(ii) *Interest rate risk*

The interest rate and term of repayment of short-term bank loan of the Group is disclosed in Section 3(i). The Group has no significant interest rate risk due to the short maturity.

(iii) *Business risk*

The Group conducts its principal operations in Mainland China and accordingly is subject to special considerations and significant risks not typically associated with investments in equity securities of Hong Kong companies. These include risks associated with, among others, the political, economic and legal environment, influence of the State Council over substantially all aspects of its operations and competition in the software industry.

(iv) *Currency risk*

The Group has no significant foreign exchange risk due to limited foreign currency transactions.

(v) *Cash flow risk*

The Group's income and operating cash flows are substantially independent of changes in market interest rate prices.

7. SEGMENT INFORMATION

The Group is one business segment and one geographical location. Thus, no segment information is prepared.

8. COMMITMENTS

(a) **Capital commitments**

As of 31st December, 1999 and 2000, the Group and the Company had no material capital commitment.

As of 31st December, 2001, according to an agreement, the Group and the Company will provide at least RMB1,000,000 per annum to fund Zhejiang University Lande Software Technology Research Center jointly established with Zhejiang University from 2002 to 2006.

(b) Operating leases commitments

The Company and Subsidiaries have various operating lease agreements for offices. Most leases contain renewal options. Some of the leases contain escalation clauses. Lease terms do not contain restrictions on the Group’s activities concerning dividends, additional debt or further leasing.

As of 31st December, 1999, 2000 and 2001, total future minimum lease payments under non-cancelable operating leases for certain office buildings of the Group and the Company are as follows:

	As of 31st December,		
	1999	2000	2001
	RMB'000	RMB'000	RMB'000
Not later than one year	250	483	502
Later than one year and not later than five years	<u>—</u>	<u>934</u>	<u>432</u>
	<u>250</u>	<u>1,417</u>	<u>934</u>

9. CONTINGENT LIABILITIES

The Group and the Company had no significant contingent liabilities as of 31st December, 1999, 2000 and 2001.

10. REGISTERED OFFICES AND NUMBER OF EMPLOYEES

The addresses of the registered offices of the Company and Subsidiaries are as follows:

The Company	4F No.108 Gu Cui Road, Xihu District, Hangzhou
Chengdu Land	No.6 Building Jiaxin Garden No.15 Lane3(S) No.2 Circle Road, Chengdu
Hangzhou Trust	4F No.108 Gu Cui Road, Xihu District, Hangzhou
Shanghai Langang	Room S-120 No.1128 Hu Tai Road, Shanghai

As of 31st December, 1999, 2000 and 2001, the Group had approximately 68, 78 and 155 (the Company: 68, 78 and 129) employees in total respectively.

11. SUBSEQUENT EVENTS

- (a) Subsequent to 31st December, 2001, the China Securities Regulatory Commission issued an approval approving the Company to issue H shares and list on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and confirming that the Company's proposed sub-division of shares as disclosed herein had been approved.
- (b) On 22nd March, 2002, Zheda Science was released as the guarantor of the Company, as Zhejiang Innovation, being the single largest shareholder of Zheda Science, would rather Zheda Science not take the risk as the Company's guarantor, which might affect the trading of Zheda Science's shares where Zheda Science is a listed company in the PRC. On the same date, Zheda Science's guarantee has been replaced by Zhejiang Innovation.

12. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company or any of its subsidiaries in respect of any period subsequent to 31st December, 2001. In addition, no dividend or other distribution has been declared or made by the Company or its subsidiaries.

Yours faithfully,
ARTHUR ANDERSEN & CO
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this prospectus received from Sallmanns (Far East) Limited, an independent valuer, in connection with their valuations as at 28th February, 2002 of the property interests of the Group in the PRC.



Sallmanns

CHARTERED SURVEYORS, PROPERTY CONSULTANTS
LAND, BUILDING, PLANT & MACHINERY VALUERS
FINANCIAL AND INTANGIBLE ASSET VALUERS

15/F Trinity House
165-171 Wanchai Road
Hong Kong
Tel: (852) 2169 6000
Fax: (852) 2528 5079



24th April, 2002

The Directors
Zheda Lande Scitech Limited
4th Floor
No.108 Gucui Road
Xihu District
Hangzhou
Zhejiang Province
The PRC

Dear Sirs,

In accordance with your instructions to value the properties in which Zheda Lande Scitech Limited (the “Company”) and its subsidiaries (together the “Group”) have interests, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of the relevant property interests as at 28th February, 2002.

Our valuations of the property interests are our opinion of the open market value which we would define as intended to mean “the best price at which an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of the valuation assuming:—

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a purchaser with a special interest; and

- (e) that both parties to the transaction acted knowledgeably prudently and without compulsion”.

In valuing the property interests rented/occupied by the Group, we are of the opinion that they have no commercial value due mainly to the short term nature or the prohibition against sub-letting or assignment or otherwise due to the lack of substantial profit rents.

We have been shown copies of tenancy agreements and other documents relating to the properties that are rented by the Group in the PRC. However, we have not examined the original documents to verify validity of the documents nor to verify any lease amendments which may not appear on the copies handed to us. We have relied upon the opinion given by the PRC legal advisers, Fangda Partners PRC Lawyers, concerning the validity of the leases and in particular, the rights of the lessors to enter into the Tenancy Agreements with the Group.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the relevant properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. Based on our experience of valuation of similar properties in the PRC, we consider the assumptions so made to be reasonable. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations.

We have inspected the exterior and, where possible, the interior of the properties included in the attached valuation certificate, in respect of which we have been provided with such information as we have required for the purpose of our valuation. However, no structural survey has been made, but in the course of our inspection we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out to any of the services.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their value.

We have relied to a considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, rentals, licences, site and floor areas and all other relevant matters.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought and received confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

In valuing the property interests in the PRC, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuations are summarized below and the valuation certificate is attached.

Yours faithfully,
for and on behalf of
SALLMANNS (FAR EAST) LIMITED
Paul L. Brown
BSc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 19 years of experience in the valuation of properties in the PRC and 22 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

PROPERTY INTERESTS RENTED AND OCCUPIED BY THE GROUP IN THE PRC

Property	Open market value in existing state as at 28th February, 2002 <i>RMB</i>
1. South area of 4th Floor No. 108 Gucui Road Xihu District Hangzhou Zhejiang Province The PRC	No commercial value
2. Room 6-702 Level 6 No. 6 Building of Jiaxin Garden No. 15 Nan Sanduan Erhuan Road Chengdu Sichuan Province The PRC	No commercial value
3. Room S-120 No. 1128 Hutai Road Zhabei District Shanghai The PRC	No commercial value

VALUATION CERTIFICATE

PROPERTY INTERESTS RENTED AND OCCUPIED BY THE COMPANY IN THE PRC

			Open market value in existing state as at 28th February, 2002 RMB
Property	Description	Particulars of occupancy	
1. South area of 4th Floor No. 108 Gucui Road Xihu District Hangzhou Zhejiang Province The PRC	The property comprises the south area of the 4th floor of a six-storey factory building completed in about 2000. The property has a gross floor area of approximately 2,283 sq.m. According to a Tenancy Agreement and a Memorandum, the property is rented to the Company from an independent third party for a term of 3 years commencing from 10th November, 2000 at a monthly rental of RMB17.5 per sq.m.	The property is occupied by the Group for production purposes.	No commercial value

Notes:

- 1) According to the opinion from the Company’s PRC legal advisers, the Tenancy Agreement and Memorandum are valid and legally enforceable. The Group is entitled to occupy and use the property under the Tenancy Agreement.
- 2) The address “No. 108 Gucui Road” is also known as “No. 247 Wener Road”.

			Open market value in existing state as at 28th February, 2002 RMB
Property	Description	Particulars of occupancy	
2. Room 6-702 Level 6 No. 6 Building of Jiaxin Garden No. 15 Nan Sanduan Erhuan Road Chengdu Sichuan Province The PRC	The property comprises a unit on level 6 of a nine-storey commercial/residential building completed in about 1998. The property has a gross floor area of approximately 165 sq.m. According to a Tenancy Agreement, the property is rented to the Group from an independent third party for a term of one year commencing from 21st November, 2001 at an annual rental of RMB20,400 exclusive of management fees and utility charges.	The property is occupied by the Group for office and staff quarters purposes.	No commercial value

Notes:

- 1) The tenant of the property is Chengdu Land E&I Technology Company Limited (成都蘭德電子信息技術有限公司), a 55% owned subsidiary of the Company.
- 2) According to the opinion given by the Company’s PRC legal advisers, the Tenancy Agreement is valid and legally enforceable. The Group is entitled to occupy and use the property under the Tenancy Agreement.

			Open market value in existing state as at 28th February, 2002 RMB
Property	Description	Particulars of occupancy	
3. Room S-120 No. 1128 Hutai Road Zhabei District Shanghai The PRC	The property comprises an office room on the first floor of a three-storey office building completed in about 1989. The property has a gross floor area of approximately 30 sq.m. According to a Tenancy Agreement, the property is leased to Shanghai Langang Communication Technologies Co., Ltd. (上海蘭港通信技術有限公司) from an independent third party for a term of 10 years commencing from 8th December, 2001 at no consideration.	The property is occupied by the Group for office purposes.	No commercial value

Notes:

- 1) The tenant of the property is Shanghai Langang Communication Technologies Co., Ltd. (上海蘭港通信技術有限公司), a 51% owned subsidiary of the Company.
- 2) According to the opinion given by the Company’s PRC legal advisers, the Tenancy Agreement is valid, legally binding and enforceable in the PRC. The Group is entitled to occupy and use the property under the Tenancy Agreement.

TAXATION OF SECURITIES HOLDERS

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of H Shares by an investor that purchases such H Shares in connection with the Placing and holds the H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of H Shares, and does not take into account the specific circumstances of any particular investors (such as tax-exempt entities, certain insurance companies, worker-dealer, investors liable for alternative minimum tax, investors that actually or constructively own 10 per cent or more of the voting shares of the Company, investors that hold H Shares as part of a straddle or a hedging or conversion transaction whose functional currency is not the US dollar), some of which may be subject to special rules. This summary is based on the tax laws of the PRC as in effect on the date hereof which are subject to change (or changes in interpretation), possibly with retroactive effect.

The discussion does not address any aspects of Hong Kong or PRC taxation other than income taxation, capital taxation, stamp taxation and estate taxation. Prospective investors are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of H Shares.

Taxation on Dividends*PRC Taxation*

On 21st July, 1993 the State Tax Bureau issued the Notice Relating to Taxes Applicable to Foreign Enterprises and Foreign National in Relation to Dividends and Gains obtained from Holding and Transfer of shares (the “Tax Notice”). The Tax Notice provides that dividends received by foreign investors from PRC listed domestic shares and overseas listed shares such as H shares were exempted from withholding tax, which would otherwise have been applicable at a rate of 20%.

On 31st October, 1993 the Amendments to the Income Tax Law Applicable to Individuals of the PRC (the “Amendments”) were promulgated taking effect from 1st January, 1994. The Amendments stipulate that all previously announced taxation laws and regulations which contradict the Amendments shall be invalid. Under the Amendments, any foreign national who is not a resident in the PRC will be subject to an income tax on dividends received from H Shares at a rate of 20%. On 26th July, 1994 the State Tax Bureau issued the State Tax Bureau Notice on Relevant Tax Problems Regarding Foreign Individuals’ Dividends Obtained from Holding Shares of Listed Companies within China (“the Notice”) under which the Tax Notice shall still be effective.

Accordingly, under current PRC laws and regulations, the withholding tax or individual income tax is not payable in respect of dividends or other distributions on H shares held by any foreign enterprise with no establishment in the PRC or foreign national not residing in the PRC. If, however, the Notice is withdrawn, a 20% withholding tax or a 20% individual income tax may be applied on such dividends or distributions, subject to any tax reductions pursuant to any applicable double taxation treaty.

Tax treaties. In the event that withholding tax or income tax is payable as referred above, foreign enterprises without an establishment or office in the PRC and foreign individual investors residing in countries which have entered into double-taxation treaties with the PRC may be entitled to a reduction of withholding tax or income tax imposed on the payment of dividends to such investors. The PRC is currently a party to double taxation treaties with a number of countries which include Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Hong Kong Taxation

No tax will be payable in Hong Kong in respect of dividends paid by the Company.

Taxation on Transfer of Shares

PRC Taxation

Pursuant to the Implementing Rules of Individual Income Tax Law of the PRC (the “Implementing Rules”) issued on 28th January, 1994, gains realised on the sale of equity securities by an individual would be subject to income tax at the rate of 20%. The Ministry of Finance is empowered to draft detailed rules on the mechanisms of collecting such tax. The Tax Notice exempts holders of H shares from capital gains tax on the disposal of H shares. On 20th June, 1994, the Ministry of Finance and the State Tax Bureau jointly issued the Notice on the Temporary Non-Levy of Individual Income Tax on Gains from Share Transfers, exempting individuals from the payment of income tax on gains from the transfer of shares for the years 1994 and 1995. On 9th February, 1996, the Ministry of Finance and the State Tax Bureau jointly issued the Notice on the Temporary Non-Levy of Individual Income Tax on Gains from Share Transfers for 1996, exempting individuals from the payment of tax on gains from transfer of shares for the year of 1996. The exemption enjoyed by a foreign enterprise under the Tax Notice is not affected by the Implementing Rules and continues to apply.

Stamp duty. By virtue of the Interim Regulations Concerning Taxation Issues for Joint Stock Trial Enterprises taking effect on 1st January, 1992 and the Interim Regulations of the PRC Concerning Stamp Duty taking effect on 1st October, 1988, PRC stamp duty is imposed on the transfer of PRC listed domestic shares. However, H shares which are transferred outside the PRC are exempted from the payment of PRC stamp duty.

Estate or inheritance tax. The PRC does not currently have any estate or inheritance tax.

Hong Kong Taxation

No tax is imposed in Hong Kong in respect of capital gains from the sale of property (such as the H Shares). Trading gains from the sale of property by persons carrying on a business in Hong Kong, where such gains are derived from or arisen in Hong Kong from such business, will be chargeable to Hong Kong profits tax which is currently imposed at the rate of 16 per cent. on corporations and at a maximum rate of 15 per cent. on individuals. Gains from sales of the H Shares effected on the Stock Exchange will be considered to be derived from or to have arisen in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of H Shares realised by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp duty. Hong Kong stamp duty will be payable by the purchaser on every purchase, and by the seller on every sale, of H Shares. The duty is charged at the ad valorem rate of HK\$1 per HK\$1,000 or part thereof of the consideration for, or (if greater) the value of, the H Shares transferred (i.e., a total of HK\$2.00 per HK\$1,000 or part thereof is currently payable on a typical sale and purchase transaction of H Shares). In addition, a fixed duty of HK\$5 is currently payable on an instrument of transfer of H Shares. Where one of the parties is resident outside Hong Kong and does not pay the ad valorem duty due by it, the duty not paid will be assessed on the instrument of transfer (if any) and will be payable by the transferee.

Estate duty. Estate duty is imposed upon the principal value of property situated in Hong Kong passing on the death of a person. H Shares are regarded as property situated in Hong Kong for estate duty purposes. Hong Kong estate duty is imposed on the principal value of a deceased's estate at gradual rates from 5 per cent. to 15 per cent. In respect of the estate of persons dying on or after 1st April, 1998, no estate duty is payable where the principal value of the dutiable estate does not exceed HK\$7.5 million; the maximum rate of 15 per cent. applies where the principal value of the dutiable estate exceeds HK\$10.5 million.

TAXATION OF THE COMPANY BY THE PRC

Enterprise Income Tax

From 1st January, 1994, income taxes applicable to joint stock limited companies are governed by the Interim Regulations of the Enterprise Income Tax of the PRC (the "Tax Regulations") promulgated by the State Council on 13th December, 1993. The Tax Regulations provide that State enterprises, collective enterprises, private enterprises, joint ventures and joint stock limited enterprise engaged in production, businesses and other income producing enterprises are liable to pay income tax at the rate of 33% on their taxable incomes except that where, in relation to particular categories of enterprises, the existing laws, administration regulations or any other relevant regulations from time to time promulgated by the State Council provide for tax holidays or preferential tax treatment. The Company has been classified as an Advanced Technology Enterprise by the Scientific Technology Committee of Zhejiang Province. As an enterprise incorporated in the National Advanced Technology Industry Development Area in Hangzhou, the Company is subject to Enterprise Income Tax ("EIT") at a rate of 15% commencing from 2001.

The Company was subject to EIT at a rate of 33% prior to 2001. Pursuant to approvals on 30th March, 1998, 15th July, 1999, 19th April, 2000 and 26th February, 2001 from the Tax Bureau of Hangzhou, Zhejiang Province (the "relevant tax bureau"), the Company was entitled to full refund of EIT paid by the Company for the years of 1997 and 1998 and refund of 18% of the Company's taxable income in respect of EIT paid for the years of 1999 and 2000. The actual EIT paid was at 15% of its taxable income for the years of 1999 and 2000. All tax refunds have been received by the Company and were recorded in the consolidated income statements in the periods to which the relevant EIT relates. In 2001, no refund had been granted.

Value-Added Tax

Pursuant to the Interim Regulations of the PRC on Value-Added Tax effective from 1st January, 1994 and the Implementing Rules of the Interim Regulations of the PRC on Value-Added Tax effective from 1st January, 1994, value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

Business Tax

Pursuant to the Provisional Regulations of the PRC Concerning Business Tax, effective from 1st January, 1994 and the implementing rules, business tax is imposed on enterprises which provide taxable services, transfer intangible property or sell real estate in the PRC. The business tax is levied at a rate from 3% to 20% on the provision of taxable services, transfer of intangible property or sale of real estate in the PRC. The sales of software and revenue from technical support services arising from the technical service contract signed by the Group are subject to business tax at a rate of 5%. The revenue from the relevant contract are exempt from business tax after individually approved by the relevant tax bureau.

TAXATION OF THE COMPANY BY HONG KONG

The Directors do not consider that any of the income of the Company is derived from or arises in Hong Kong for the purpose of Hong Kong profits tax. The Company will, therefore, not be subject to Hong Kong profits tax.

FOREIGN EXCHANGE

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange control and is not freely convertible into foreign exchange at this time. The SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

Major reforms have been introduced to the foreign exchange control system of the PRC since 1993.

On 28th December, 1993, the PBOC, with the authorisation of the State Council, issued the Notice of the People's Bank of China concerning Further Reform of the Foreign Exchange Control System which came into effect on 1st January, 1994. Other new regulations and implementation measures include the Provisional Regulations on the Foreign Exchange Settlement, Sale and Payment which were promulgated on 20th June, 1996 and took effect on 1st July, 1996 and which contain detailed provisions regulating the settlement, sale and payment of foreign exchange by enterprises, individuals, foreign organisations and visitors in the PRC. Under these new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating exchange rate system based on largely supply and demand was introduced. The PBOC publishes the Renminbi exchange rate against the US dollar daily. Such rate is to be set by reference to the Renminbi/US dollar trading price on the previous day on the inter-bank foreign exchange market.

The foreign exchange earnings of all PRC enterprises, other than those either derived by enterprises with foreign investment interests or specifically exempted under the relevant regulations, are to be sold to designated banks. Foreign exchange earnings obtained from borrowings from foreign institutions or issues of shares or bonds denominated in foreign currency need not be sold to designated banks, but may need to be kept in foreign exchange bank accounts of designated banks. At present, control of purchase of foreign exchange is relaxed. Enterprises within the PRC which require foreign exchange for their ordinary trading and non-trading activities and import activities may purchase foreign exchange from designated banks if the application is supported by relevant documents. Furthermore, enterprises with foreign investment may distribute profit to their foreign investors with funds in their foreign exchange bank accounts kept with designated banks. Should such foreign exchange be insufficient, enterprises may apply to the relevant governmental department for permission to purchase foreign exchange from designated banks. When conducting foreign exchange transactions, the designated banks may, based on the exchange rate published by the PBOC and subject to certain limits, freely determine the applicable exchange rate. Foreign exchange quota of the relevant entities under the old system will be gradually phased out. The remaining foreign exchange quota may be converted into foreign exchange through designated foreign exchange banks.

The China Foreign Exchange Trading System ("CFETS") was formally established and came into operations on 1st January, 1994, CFETS has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can trade and settle their foreign currencies. The establishment of CFETS was originally intended to coincide with the elimination of swap centres. The swap centres had, however, been retained as an interim measure and

enterprises with foreign investment are currently required to enter into exchange transactions only through the swap centres, rather than through designated PRC banks, upon obtaining the approval of SAFE or its local office where the swap centres are located. According to a notice issued by the PBOC and SAFE on 25th October, 1998, all the swap centres were closed from 1st December, 1998.

The Notice Concerning Some Issues Relating to Exchange Control of Overseas Listed Enterprises was jointly issued by CSRC and SAFE on 13th January, 1994. The Notice provides that:

- upon the approval of SAFE, an overseas listed enterprise may open a foreign exchange account at a bank within the PRC to retain foreign currency proceeds received from overseas share offers;
- within 10 days after receiving the foreign currency proceeds of the share offer, the enterprise should transfer such proceeds into an approved PRC bank account;
- upon approval of SAFE the enterprise may remit abroad the foreign exchange from its foreign currency bank account to foreign investors outside the PRC for the purpose of payment of dividends or other profit distribution; and
- if 25% or more of the share capital of the enterprise is held by foreign investors, such enterprise may apply to MOFTEC for foreign investment enterprises status, and upon approval of MOFTEC, the foreign exchange matters of such enterprises shall be handled in accordance with foreign exchange regulations governing foreign investment enterprises.

This appendix sets out summaries of certain aspects of the PRC legal and judicial system, its arbitration system and its company and securities regulations. It also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the GEM Listing Rules and the additional provisions required by the Hong Kong Stock Exchange for inclusion in the articles of association of PRC issuers.

1. PRC LAWS AND REGULATIONS

(a) Legal System

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws and regulations. Decided court cases do not constitute binding precedents, although they are used for the purposes of judicial reference and guidance.

The National People's Congress of the PRC (the "NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the State. The NPC has the power to amend the PRC Constitution and enact and amend basic laws governing State organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret enact and amend laws other than those required to be enacted by the NPC.

The State Council is the highest organ of State administration and has the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to enact administrative rules and regulations. The ministries and commissions under the State Council are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. All administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not conflict with the PRC Constitution and the national laws enacted by the NPC. In the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives or orders.

At the regional level, the people's congress of provinces and municipalities and their respective standing committee may enact local rules and the regulations and the people's governments may promulgate administrative rules and directives applicable to their own administrative areas. These local laws and regulations cannot be in conflict with the PRC Constitution, the national laws and the administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全國人民代表大會常務委員會關於加強法律解釋工作的決定)

passed on 10th June, 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings in addition to its power to issue specific interpretation for specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they have promulgated. At the regional level, the power to give interpretations of the regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry legal effect.

(b) **Judicial System**

The people's courts are the judicial organs of the PRC. Under 中華人民共和國憲法 and 中華人民共和國法院組織法 (the PRC Constitution and the Law of Organisation of the People's Courts of the PRC), the people's courts are made up of the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic people's courts, the intermediate people's courts and the higher people's courts. The basic people's courts are further divided into civil, criminal, economic and administrative divisions. The intermediate people's courts have divisions similar to those of the basic people's courts and other special divisions (such as the intellectual property division) in accordance with needs. The judicial function of people's courts at lower levels is subject to supervision of people's courts at high levels. The people's procurators also have the right to exercise legal supervision over the civil proceedings of people's courts of the same level and the lower level. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts at all levels.

The people's courts adopt a two-tier final appeal system. A party may, before the taking effect of a judgement or order, appeal against the judgement or order of the first instance of a local people's court to the people's court at the next higher level. Judgements or orders of the second instance of the same level and at the next higher level are final and binding. Judgements or orders of the first instance of the Supreme People's Court are also final and binding. If however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgement which has taken effect in any people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgement which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by 中華人民共和國民事訴訟法 (the Civil Procedure Law of the PRC) (the "Civil Procedure Law") adopted on 9th April, 1991 which prescribes the criteria for instituting a civil action, the jurisdiction of the people's courts, the court procedures to be followed for conducting a civil action, the court procedures and the court procedures for enforcement of a civil judgement or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the people's court having the jurisdiction is located at the plaintiff's or the defendant's place of domicile, the place of execution or implementation of the contract or the object of the action but it must not violate the regulations in respect of hierarchy and jurisdiction of the courts as stated in the Civil Procedure Law. A foreign national or foreign enterprise is given the same litigation rights and obligations as a citizen or legal person of the PRC. Should a court of a foreign country limit the litigation rights of PRC citizens

and enterprises, the PRC courts shall apply the same limitations to the citizens and enterprises of that foreign country. If any party to a civil action refuses to comply with a judgement or order made by a people's court or an award made by an arbitration organ in the PRC, the aggrieved party may apply to the people's court to enforce the judgement order or award. Time limits are imposed on the right to apply for such enforcement. If at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other institutions, the time limit is six months. If a person fails to satisfy a judgement which the court has granted approval to enforce within the stipulated time, the court will, upon application of either party, mandatorily enforce the judgement.

A party seeking to enforce a judgement or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgement or order. If the PRC has entered into an international treaty with the relevant foreign country or which is acceded to by the PRC which provides for such recognition and enforcement, a foreign judgement or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's court in accordance with such treaties or the principle of reciprocity unless the people's court considers that the recognition or enforcement of a judgement or ruling will violate the basic legal principles of the PRC or its sovereignty or security, or for reasons of social and public interest.

(c) Arbitration and Enforcement of Arbitral Awards

中華人民共和國仲裁法 (the Arbitration Law of the People's Republic of China) (the "Arbitration Law") was passed by the Standing Committee of the NPC on 31st August, 1994 and came into effect on 1st September, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the people's court will refuse to handle the case if one party institutes legal proceedings in a people's court.

The Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and, in the case of the Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the articles of association, the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and the directors, supervisors, managers or other officers of the company; or (iii) a holder of overseas listed foreign shares and holder of domestic shares, unless otherwise specified in the articles of association of the company concerned, such parties shall submit that dispute or claim for arbitration before either the PRC International Economic and Trade Arbitration Commission ("CIETAC") or the Hong Kong International Arbitration Centre ("HKIAC") for arbitration. If the party seeking arbitration

elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is a foreign affairs arbitration organ in the PRC which is located in Beijing with branch offices in Shenzhen and Shanghai.

Under the Arbitration Law and PRC Civil Procedure Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration commission if there is any procedural or membership irregularity specified by laws or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards ("New York Convention") adopted on 10th June, 1958 pursuant to a resolution of Standing Committee of the NPC passed on 2nd December, 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including which the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (1) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity; and (2) the PRC will only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations. However, following the resumption of sovereignty over Hong Kong by the PRC on 1st July, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitral awards in the PRC. On 21st June, 1999, the governments of Hong Kong and the PRC have entered into a memorandum of understanding according to which an agreement has been reached in principle on the reciprocal enforcement of arbitral awards. The aforesaid memorandum took effect on 1st February, 2000. To date, no report that any precedent has been in place in respect of enforcement in the PRC of a Hong Kong arbitral award obtained after 1st July, 1997 against a PRC company or citizen. It is still unclear as to when and how one can rely on the relevant PRC domestic procedures to enforce a Hong Kong arbitration award in the PRC.

(d) **Company Law**

On 29th December, 1993, the NPC promulgated the PRC Company Law which came into effect on 1st July, 1994. Before implementation of the PRC Company Law, the formation and regulation of joint stock limited companies were governed by the Standard Opinion on Joint Stock Limited Companies ("Standard Opinion") promulgated by the State Commission of Restructuring of Economic Systems ("SCRES") on 15th May, 1992. The Standard Opinion was superseded by the PRC Company Law. The legal status of joint stock limited companies established pursuant to the Standard Opinion is preserved and these companies are required to conform to the provisions of the PRC Company Law and apply for re-organisation before 31st

December, 1996. The Special Regulations are formulated according to the provisions of sections 85 and 155 of the Company Law in respect of the overseas subscription and listing of joint stock limited companies. The Mandatory Provisions which must be incorporated in the articles of association of all PRC joint stock limited companies to be listed overseas were jointly promulgated by the State Council Securities Commission (“SCSC”) and the SCRES. The Mandatory Provisions were supplemented by the Letter on the Opinion Regarding the Supplemental Amendments to the Articles of Association of Companies to be Listed in Hong Kong (“Supplemental Amendments”) jointly promulgated by the SCSC and the SCRES. The Mandatory Provisions as supplemented by the Supplemental Amendments have been incorporated in the Articles of Association.

Set out below is a summary of the provisions of the PRC Company Law, the Special Regulations and the Mandatory Provisions as supplemented by the Supplemental Amendments:

(i) *General*

The PRC Company Law governs two types of companies, namely companies incorporated in the PRC with limited liability and companies incorporated in the PRC as a joint stock limited company. Both types of companies have the status of an enterprise legal person.

The liability of shareholders of a limited liability company is limited to the extent of the amount of capital contributed by them and the company is liable to its creditors to the full amount of the assets owned by it. A joint stock limited company is a company having a registered share capital divided into shares of equal par value. The liability of its shareholders is limited to the extent of the amount of shares subscribed by them and the company is liable to its creditors for the full amount of all the assets owned by it.

A company may invest in other limited liability companies and joint stock limited companies. Apart from investment companies and holding companies authorised by the State Council, the amount of a company’s aggregate investment in other joint stock limited companies and limited liability companies may not exceed 50% of its net assets. The Mandatory Provisions provide that a company may, subject to the approval of the authorised department of the State Council, operate as a holding company. References below to “company” are to a joint stock limited company incorporated under the PRC Company Law with overseas listed foreign shares to be directly offered and listed in Hong Kong.

(ii) *Incorporation*

Under the PRC Company Law, a company may be incorporated either by way of promotion or public subscription. The entire issued share capital of a company incorporated by way of promotion must be subscribed by the promoters. If a company is established by way of public subscription, not less than 35% of the issued shares of the company must be subscribed by its promoters, the remaining issued shares must be offered for subscription by the public. Under the PRC Company Law, the establishment of a company, regardless of the method of incorporation, requires a minimum of five promoters with at least half of the promoters residing in the PRC. A State owned enterprise which is restructured into a

joint stock limited company by way of public subscription may have less than five promoters. Under the Special Regulations, a State owned enterprise or an enterprise with the majority of its assets owned by the State can be restructured in accordance with the relevant regulations to become a joint stock limited company and may offer shares for subscription by overseas investors. If such a company is established by way of promotion, there may be less than five promoters and the company may issue new shares once incorporated.

(iii) *Procedures for establishment of companies*

The establishment of a company must be approved by the relevant governmental departments authorised by the State Council or by the relevant provincial people's government. In respect of a company established by way of promotion, the promoters shall elect the board of directors and the members of the supervisory committee after they have paid up in full (in cash or in kind) the amount of shares subscribed by them. The board of directors of the company shall submit the supporting documents such as the company's articles of association and the capital verification certificate to the Administration of Industry and Commerce Bureau for registration of the company.

In respect of a company established by way of public subscription, the promoters shall submit to the relevant securities administration authority an application for public offering together with other supporting documents including (1) approval of the establishment of the company; (2) draft articles of association; (3) business plan; (4) names of the promoters, the shares subscribed by the promoters and the capital verification certificates; (5) prospectus; (6) particulars of receiving banker; (7) name of underwriters and the underwriting agreement. The promoters may proceed with the public offering of shares only after the approval of the relevant securities administration authority has been obtained. An inaugural meeting of the company shall be convened by the promoters within 30 days after the shares have been paid up in full. Matters required to be transacted at the inaugural meeting include the adoption of the company's articles of association, the election of the directors, the election of members of the supervisory committee and the review of the value attributed to the assets injected by the promoters into the company in return for its shares. The board of directors of the company is required to submit the requisite documents to the Administration of Industry and Commerce Bureau for registration of the company within 30 days after the inaugural meeting. The date of establishment of a company is the day when its business licence is issued by the Administration of Industry and Commerce Bureau.

(iv) *Responsibilities of Promoters*

Under the PRC Company Law, the promoters of a company are jointly and severally liable for:

- (1) the payment of expenses and liabilities incurred in connection with the establishment of the company if the company cannot be incorporated;
- (2) the repayment of subscription monies to the subscribers together with interest at bank rates for a deposit of the same term if the company cannot be incorporated; and

- (3) damages suffered by the company as a result of the default of the promoters in the course of the incorporation of the company.

According to the Provisional Regulations Concerning the Issue and Trading of Shares (股票發行與交易管理暫行條例) (the “Securities Provisional Regulation”) promulgated by the State Council on 22nd April, 1993, the promoters of a company are required to assume joint responsibility for the accuracy of the contents of the prospectus and to ensure that the prospectus does not contain any misleading statement or omit any material information.

(v) *Shares*

(aa) Registered capital

The registered capital of a company is the total paid up capital of the company registered with the Administration of Industry and Commerce Bureau. The minimum registered capital of a company is RMB10,000,000. A company, the shares of which are authorised by the relevant securities administration authority to be listed on a stock exchange, must have a registered capital of not less than RMB50,000,000. The registered capital of a company shall be divided into shares of equal par value. A company’s promoters may subscribe for shares in cash or by way of injection of assets, industrial property rights, know-how and land use rights provided that shares subscribed for by way of an injection of industrial property rights and know-how shall not exceed 20% of the registered capital of a company. Where shares are allotted in return for injection of assets, the assets must be valued before injection.

(bb) Allotment and issue of shares

The issue of shares must be based on the principles of transparency, equality and fairness. The same class of shares must carry equal rights. Where shares are issued at the same time, the terms (including the subscription price) of allotment of each share must be identical to the others of the same class. Shares may be issued at par or at a premium but may not be issued below the par value.

(cc) Registered or bearer shares

Shares may be issued in registered form or bearer form. Shares issued to promoters, State-designated investment institutions and legal persons must be in registered form and may not be held in the names of nominees. Shares issued to the public may be in registered or bearer form. The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form, denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors including investors from the territories of Hong Kong, Macau and Taiwan and listed overseas are known as “overseas listed foreign shares”, and those shares issued to investors within the PRC other than the territories specified above are known as “domestic shares”. A company may offer its shares to the overseas public

with the approval of the securities administration department of the State Council. The State Council is empowered to prescribe detailed measures in connection with any such offer of shares. In addition to providing for the number of shares to be underwritten, an underwriting agreement may, subject to the prior approval of the SCSC, make provisions to set aside up to 15% of the overseas listed foreign shares as part of the total number of shares to be offered under the Special Regulations.

A register of shareholders shall be maintained by the company in respect of shares issued in registered form. Information such as the particulars of shareholders, number of shares held by each shareholder and the dates on which the shareholders became holders of the relevant shares are required to be entered into the register. A company is required to record the amount of bearer shares issued, the number designated to each bearer share and the date of issue of each bearer share.

(vi) *Increase of share capital*

Under the PRC Company Law, a company may increase its share capital by means of an issue of new shares subject to the following:

- (1) the immediately preceding issue of shares has been subscribed in full and at least a year has elapsed since the date of the immediately preceding share issue but under the Special Regulations, if a company increases its capital by way of an issue of overseas listed foreign shares, the time period elapsed since the last share issue may be less than 12 months;
- (2) the company has made a profit in each of the three financial years preceding the offer of shares and is in a position to distribute dividends to shareholders;
- (3) the financial and accounting statements of the company in the three financial years immediately preceding the offer of shares do not contain any false information; and
- (4) the expected dividend yield of the company is in excess of the interest rate of bank deposits for the same period.

An issue of shares shall be approved by shareholders in general meeting. After the shareholders' approval has been obtained, the board of directors of the company shall also obtain the approval of the authorised department of the State Council or that of the provincial people's government. If a company issues shares by way of an offer to the public, the approval of the relevant securities administration authority will also have to be obtained. Upon completion of the subscription of new shares, the company must register the increase in registered capital with the Administration of Industry and Commerce Bureau and issue a public notice.

(vii) Reduction of share capital

Subject to the minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the PRC Company Law:

- (1) the company shall prepare a balance sheet and inventory of assets;
- (2) the reduction of registered capital must be approved by shareholders in general meeting;
- (3) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper at least three times within 30 days after the resolution approving the reduction has been passed;
- (4) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (5) the company must apply to the Administration of Industry and Commerce Bureau for registration of the reduction in registered capital.

(viii) Repurchase of shares

A company may not acquire its own shares except in cases where a company effects a cancellation of shares due to a reduction in registered capital or a merger with another company which holds shares in the company or such other purpose permitted by law and administrative regulations. The Mandatory Provisions provide that upon obtaining the necessary approvals in accordance with the articles of association of a company and that of the relevant supervisory authorities, the company may repurchase its issued shares for the foregoing purposes by way of a general offer to the shareholders of the company or purchase at a stock exchange or by way of an off market contract. Under the PRC Company Law, within 10 days following a repurchase of a company's own shares, such company must in accordance with the applicable law and regulations cancel the portion of the shares repurchased, change its registration particulars and issue a public notice.

(ix) Transfer of shares

Shares may be transferred in accordance with the relevant law and regulations.

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with law. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by the applicable law and regulations.

Shares issued to promoters may not be transferred within three years after the establishment of the company.

There is no restriction under the PRC Company Law as to the shareholding percentage of single shareholder of a company.

(x) *Shareholders*

Under the PRC Company Law and the Mandatory Provisions, the rights of a shareholder include:

- (1) the right to attend and vote in person or to appoint a proxy to attend and vote on his behalf at general meetings of the company;
- (2) the right to inspect the articles of association of the company, the minutes of shareholders' meetings and the financial reports of the company and to put forward propositions and enquiries relating to the operations of the company;
- (3) the right to transfer the shares held by it in accordance with law on a stock exchange established in accordance with the relevant laws;
- (4) the right to receive the surplus assets of the company in its winding up in proportion to its shareholding; and
- (5) the right to apply to the people's court for an injunction if a resolution passed at a shareholders' meeting or directors' meeting has infringed the law or administrative regulations or the legitimate interests of the shareholders.

A shareholder is liable to the company to the extent of the amount of shares he subscribed for. A shareholder may enjoy such other rights and is required to assume such other obligations as specified in the company's articles of association.

(xi) *Shareholders' general meetings*

(aa) Powers of shareholders in general meeting

The shareholders' general meeting is the organ of authority of the company and may exercise the following powers:

- (1) to determine the company's business policies and investment plans;
- (2) to elect or remove directors and supervisors who are the representatives of shareholders and to fix the remuneration of directors and supervisors;
- (3) to consider and approve the reports of directors and supervisors;
- (4) to consider and approve the annual financial budget and accounting plans;

- (5) to consider and approve the profit distribution plan and plans for recovery of losses;
- (6) to approve the increase or reduction in share capital of the company;
- (7) to approve the issue of bonds by the company;
- (8) to approve the merger, demerger, corporate restructuring, dissolution and liquidation of and other issues relating to the company; and
- (9) to approve amendments to the company's articles of association.

(bb) Annual general meetings and extraordinary shareholders' general meetings

Shareholders' general meetings are divided into annual general meetings and extraordinary shareholders' general meetings. Annual general meetings must be held once every year. Extraordinary shareholders' general meetings are general meetings other than annual general meetings and shall be convened within two months after the occurrence of any of the following circumstances:

- (1) the number of directors is less than two thirds of the number required under the PRC Company Law or the company's articles of association;
- (2) the company's accumulated losses amount to one-third of its paid up capital;
- (3) upon requisition by holders of not less than 10% of the shares of the company; or
- (4) the board of directors or the supervisory committee considers such a meeting necessary.

(cc) Proceedings of shareholders' general meetings

A shareholders' general meeting has to be convened by the board of directors and presided over by the chairman of the board of directors. Under the PRC Company Law, notice of shareholders' general meeting shall be given not less than 30 days before the date of the meeting. A company which has bearer shares in issue shall make public announcement of the shareholders' general meeting at least 45 days prior to the meeting being held. Under the Special Regulations and the Mandatory Provisions, 45 days' notice of a shareholders' general meeting is required to be given to shareholders specifying the matters to be considered at and the date and place of the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders who intend to attend a shareholders' general meeting are required to provide the company with a written confirmation of their attendance 20 days prior to the meeting. Shareholders holding 5% or more of the voting rights of a company are entitled, under the Special

Regulations, to propose to the company in writing new resolutions to be considered at an annual general meeting and the company shall include any proposed resolutions which are within the powers of a shareholders' general meeting in the agenda of that meeting.

The PRC Company Law does not specify any quorum requirement for a general meeting. The Special Regulations and the Mandatory Provisions provide that a shareholders' general meeting may be held if shareholders holding 50% or more of the voting rights of a company have replied in writing 20 days prior to the proposed date of the meeting that they intend to attend the meeting. In the event that the 50% level is not attained, a shareholders' general meeting may be held if the company shall within 5 days after the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at and the place and date of the meeting.

Each shareholder present at a shareholders' general meeting is entitled to one vote for every share held. A shareholder may appoint a proxy to attend and vote on his behalf at a shareholders' general meeting. Ordinary resolutions proposed at a shareholders' general meeting must be passed by more than half of the votes cast by shareholders present in person or by proxy at the meeting except that (1) amendments to the company's articles of association; (2) the merger, demerger or dissolution of the company; (3) the increase and reduction of capital of and the issue of any class of shares, bonds and securities by the company; (4) other matters which the shareholders' general meeting has resolved by way of ordinary resolution as having a potentially material effect on the company and should be approved by special resolution are required under the Mandatory Provisions to be approved by more than two thirds of the votes so cast.

The Mandatory Provisions require class meetings to be held in the event of a variation or abrogation of the class rights of a class. Holders of domestic shares and holders of overseas listed foreign shares are deemed to be different classes of shareholders.

(xii) *Directors*

(aa) Board of directors

The board of directors of a company shall consist of 5 to 19 directors. The term of office of a director shall be prescribed by the company's articles of association provided that a term of office shall not exceed three years. A director may serve consecutive terms if re-elected. The board of directors of a company may exercise the following powers:

- (1) to convene shareholders' general meetings and report on its work to the shareholders;
- (2) to implement resolutions passed by shareholders in general meetings;

- (3) to decide on the company's business plans and investment plans;
- (4) to formulate annual budgets and accounts of the company;
- (5) to formulate profit distribution plans and plans for recovery of losses;
- (6) to formulate plans for the increase or decrease in registered capital or plans for issue of bonds;
- (7) to formulate plans for the merger, demerger or dissolution of the company;
- (8) to decide on the internal management structure of the company;
- (9) to appoint or dismiss the manager, and at the recommendation of the manager, employ or dismiss deputy managers and financial controllers and to fix their remuneration; and
- (10) to decide on a management control system.

In addition, the Mandatory Provisions provide that the board of directors is also responsible for formulating proposals for amending the articles of association of the company.

(bb) Board meetings

Regular meetings of the board of directors of a company shall be held at least twice every year. Notice of regular board meetings shall be given at least 10 days before the date of the meeting. Notices of any other extraordinary board meetings shall be given in such manner and for such notice period as may be determined by the board of directors.

A quorum for a board meeting shall be constituted by more than half of the directors. A director may attend a board meeting personally or may appoint another director as his alternate to attend on his behalf. All board resolutions must be passed by the affirmative votes of more than half of the directors. All resolutions passed at a board meeting shall be recorded in the minutes of the relevant meeting and the minutes shall be signed by the directors who attended the meeting and the person who recorded the minutes. If any board resolution contravenes any applicable laws and regulations or the company's articles of association and results in substantial damages to the company, any director who participated in passing the resolution (except those who voted against the resolution and whose dissenting vote is recorded in the relevant minutes) shall be personally liable to the company.

(cc) Chairman of the board of directors

The board of directors shall appoint a chairman. The appointment of the chairman shall be approved by more than half of the directors. The chairman is the legal representative of the company and may exercise the following powers:

- (1) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors;
- (2) to examine the implementation of resolutions of the board of directors; and
- (3) to sign the share certificates and bonds issued by the company.

(dd) Qualification of directors

The PRC Company Law provides that the following persons are not eligible to act as directors:

- (1) a person who is unable or has limited ability to undertake any civil liabilities;
- (2) a person who has been convicted of offences relating to bribery, corruption, appropriation of property, or the destruction of social economic order, where less than five years have elapsed since the date of completion of the sentence; or a person who has been deprived of his political rights where less than five years have elapsed since completion of such deprivation;
- (3) a person who is a former director, factory manager or manager of a company or enterprise which has become bankrupt or has been liquidated due to mismanagement and who is personally liable for the bankruptcy or liquidation of such company or enterprise, where less than three years have elapsed since the date of the completion of the liquidation of the company or enterprise;
- (4) a person who has been a legal representative of a company or enterprise the business licence of which has been revoked due to unlawful operation by the enterprise and the person is personally responsible for such revocation, where less than three years has elapsed since the date of such revocation;
- (5) a person who is liable for a relatively large amount of debt which has not been repaid when due; or
- (6) a person who is a State civil servant.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions which have been incorporated in the Articles of Association.

(xiii) Supervisory committee

A company is required to establish a supervisory committee comprising not less than three members. The supervisory committee is responsible for:

- (1) examining the financial matters of the company;
- (2) supervising the directors and the manager of the company to ensure that they carry out their duties in compliance with the relevant laws and regulations and the company's articles of association;
- (3) requiring the directors and manager to rectify any action which adversely affects the interests of the company;
- (4) proposing the convening of shareholders' general meeting; and
- (5) carrying out other duties specified in the company's articles of association.

A supervisor is also required to attend board meetings. Under the Supplemental Amendments, resolutions of a supervisory committee are required to be passed by the affirmative votes of two thirds or more of the supervisors. Members of the supervisory committee shall comprise representatives elected by the employees of the company and representatives elected by shareholders in general meeting in an appropriate proportion specified in the company's articles of association. A director, manager or financial controller of the company cannot become a supervisor. The term of office of a supervisor is three years and a supervisor may serve consecutive terms if re-elected. The circumstances under which a person is disqualified from acting as a directors of a company under the PRC Company Law and the Mandatory Provisions apply mutatis mutandis to a supervisor of the company.

(xiv) Manager and officers

The company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers:

- (1) to supervise the production, business and administration of the company and to organise the implementation of resolutions of the board of directors;
- (2) to organise the implementation of the company's business and investment plans;
- (3) to formulate plans for the establishment of the company's internal management structure;
- (4) to formulate the basic administration system of the company;
- (5) to formulate the company's internal rules;

- (6) to recommend the appointment and dismissal of deputy managers and financial controller and appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors);
- (7) to attend board meetings; and
- (8) to exercise other powers conferred by the board of directors or the company's articles of association.

The Special Regulation provide that the officers of a company shall include its financial controller, company secretary and other executives specified in the company's articles of association. The circumstances under which a person is disqualified from acting as a director of a company under the PRC Company Law and Mandatory Provisions apply mutatis mutandis to managers and officers of the company.

(xv) Duties of directors, supervisors, managers and officers

A director, supervisor, manager and an officer of a company are required under the PRC Company Law to comply with the relevant law, regulations and the company's articles of association, carry out their duties honestly, and protect the interests of the company. The Special Regulations and the Mandatory Provisions provide that a director, a supervisor, a manager and/or an officer of a company owes fiduciary duties to the company and are required to perform their duties faithfully, protect the interests of the company and not to make use of their positions in the company for their own benefits. A director, a supervisor, manager and/or an officer who contravenes any law, regulation or the company's articles of association in the performance of his duties which resulted in any loss to the company shall be personally liable to the company.

(xvi) Finance and accounting

A company is required to establish a financial and accounting system in accordance with the relevant law and the regulations stipulated by the Ministry of Finance of the State Council. A company is required to prepare its financial statements at the end of each financial year comprising its balance sheet, profit and loss account, a statement on financial status and changes of financial status and a profit distribution statement. The financial statements shall be made available for inspection by the shareholders of the company at least 20 days prior to the annual general meeting of the company. A company established by way of public subscription shall publish its financial statements by way of public announcement.

A company is required to make the following transfers from its after tax profit before distributing its profits to the shareholders of the company:

- (1) 10% of its after tax profits to the statutory reserve of the company provided that no further transfer is required to be made if the accumulated statutory reserve exceeds/reaches 50% of the registered capital of the company;
- (2) between 5% and 10% of its after tax profit to the statutory public welfare fund;

- (3) subject to the shareholders' approval in shareholders' general meeting and after transfer of the requisite amount to the statutory reserve, the amount from the after tax profit of the company to the discretionary reserve; and
- (4) any balance of the after tax profit after making up losses and transfers to the reserve and statutory public welfare fund shall be distributed to the shareholders in proportion to their respective shareholdings in the company.

When a company's statutory reserve is insufficient to make up for the company's losses for the previous year, the profits of the company for the current year shall be applied to make up such losses before making allocations in accordance with the foregoing requirements to the statutory reserve and the statutory public welfare fund. The reserve of a company comprises the statutory reserve, discretionary reserve and the capital reserve. The capital reserve of a company is made up of the premium over the nominal value of the shares of the company and other amounts required by the relevant governmental authority to be treated as the capital reserve.

The reserve of a company shall be applied for the following purposes:

- (1) to make up the company's losses;
- (2) to expand the business operations of the company; and
- (3) to pay up the registered capital of the company by the issue of new shares to shareholders in proportion to their existing shareholdings in the company or by increasing the par value of the shares currently held by the shareholders provided that if the statutory reserve is converted into registered capital, the balance of the statutory reserve after such conversion shall not be less than 25% of the registered capital of the company.

The statutory public welfare fund shall be applied for the collective welfare of the company's employees.

(xvii) Appointment and retirement of auditors

The Special Regulations require a company to employ an independent PRC qualified firm of accountants to audit the company's annual financial statements and review other financial reports. The auditors are to be appointed for a term commencing from their appointment at an annual general meeting to the close of the next annual general meeting. If a company removes or ceases to continue to appoint its existing auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The auditors who resigned from their office should make a statement to the shareholders stating whether or not the company has undertaken any inappropriate transactions. The appointment, removal or non-renewal of appointment of auditors shall be decided by the shareholders and shall be registered with the CSRC.

(xviii) Distribution of profits

The Special Regulations provide that the dividends and other distributions payable to holders of overseas listed foreign shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

(xix) Amendments to articles of association

Amendments to a company's articles of association must be approved by more than two thirds of the votes cast by shareholders present at the shareholders' general meeting. Any amendment to the provisions in a company's articles of association in accordance with the Mandatory Provisions will only be effective after the approval of the relevant department authorised by the State Council and the SCSC are obtained. A company must change its registration particulars in accordance with the applicable law if any amendments to its articles of association involving registration matters are adopted.

(xx) Merger and demerger

The merger or demerger of a company shall be approved by the shareholders in general meeting and the relevant governmental authority. The merger of a company may be effected either by way of absorption followed by the dissolution of the company being absorbed or by the establishment of a new entity followed by the dissolution of the original entities.

All parties to a merger are required to sign a merger agreement and to prepare their respective balance sheets and inventory of assets. Each relevant party to a merger shall notify the creditors of the merger within 10 days and publicly announce the merger in the newspapers at least three times within 30 days after the resolution approving the merger has been passed. The creditors are required within the statutory prescribed time limit to request the company to repay any outstanding indebtedness or provide guarantees covering such indebtedness. Any company which is unable to repay its debts or provide such guarantees is prohibited from proceeding with the merger.

A company is required to prepare its balance sheet and inventory of assets prior to its demerger. Similar requirements on notification of the demerger to creditors, publication of notice of the demerger and repayment of debts or provision of guarantees to creditors are applicable to the case of a demerger.

Any changes in the registrar's particulars of the companies resulting from merger or demerger should be re-registered with the company registration authority in accordance with the law.

(xxi) Dissolution and liquidation

Under the PRC Company Law, a company shall be dissolved and liquidated if any of the following events shall occur:

- (1) the term of its operations as stipulated in the company's articles of association has expired or on the occurrence of an event provided in the company's articles of association which triggers the dissolution of the company;
- (2) the shareholders in general meeting have resolved to dissolve the company by special resolution;
- (3) a merger or demerger of the company which required the company to be dissolved;
- (4) the declaration of the winding up of the company according to law by reason of its not being able to pay its debts when they become due and payable; or
- (5) the company has been ordered to close down as a result of violation of the law or administrative regulations.

Where a company is dissolved in any of the circumstances referred to in (1) or (2) above, the shareholders in general meeting shall within 15 days of the occurrence of the event appoint the members of the liquidation committee. If the liquidation committee is not established within the specified time, the creditors of the company may apply to the people's court to appoint the members of the liquidation committee. The people's court or the relevant supervising department shall organise a liquidation committee to conduct the liquidation. A liquidation committee shall comprise shareholders, the relevant department and the relevant professional personnel if the company is dissolved in the cornerstones described in (4) or (5) above. A liquidation committee shall be responsible for dealing with the assets of the company, preparing a balance sheet and an inventory of the company's assets, notifying the creditors of the company's dissolution, handling the outstanding business of the company, discharging the outstanding indebtedness (including unpaid taxes) of the company, distributing the company's surplus assets after repayment of all its indebtedness and representing the company in all civil litigation.

A liquidation committee is required to notify the creditors of the dissolution of the company within 10 days after its establishment and issue a public announcement of the dissolution of the company at least three times within 60 days after its establishment. A creditor is required to lodge its claim with the liquidation committee within the statutory prescribed time limit.

The company's assets shall be applied to pay all expenses incurred in connection with the liquidation, the employees' wages and the indebtedness of the company. Any surplus assets after the discharge of the company's liabilities shall be distributed to the shareholders in proportion to their respective shareholdings in the company. If the assets of the company are insufficient to repay/discharge its indebtedness, the liquidation committee shall apply to the people's court for a declaration of insolvency and shall transfer the liquidation proceedings to the people's court.

A company cannot engage in any new business operations during its liquidation. On completion of the liquidation process, the liquidation committee is required to submit a liquidation report to the shareholders in general meeting and the relevant administrative department for confirmation. The liquidation committee is also required to apply to the Administration of Industry and Commerce Bureau for the cancellation of the company's registration and to make a public announcement of the company's dissolution following such cancellation. Members of the liquidation committee are required to discharge their duties honestly and in compliance with laws. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his wilful or material default.

(xxii) *Overseas listing*

The shares of a company shall only be listed overseas after obtaining approval from the CSRC and the listing must be arranged in accordance with procedures specified by the Special Regulations. According to the Special Regulations and the Mandatory Provisions, a company's plan to issue overseas listed foreign shares and domestic shares which has been approved by the CSRC may be implemented by its board of directors separately within 15 months after the approval is obtained from the CSRC.

(xxiii) *Loss of shares certificates*

In the event that share certificates in registered form are either stolen or lost, a shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a people's court for a declaration that such certificates will no longer be valid. After such a declaration has been made by the people's court, the shareholder may apply to the company for the issue of replacement certificates. A separate procedure regarding the loss of "H" Share certificates is provided in the Mandatory Provisions and has been incorporated into the Articles of Association, a summary of which is set out in this Appendix.

(xxiv) *Suspension and termination of listing*

A company which is listed on a stock exchange may have its listing suspended by the securities administration department of the State Council if any of the following shall occur:

- (1) the registered capital of the company or the distribution of the company's shares no longer complies with the relevant listing requirements;
- (2) the company has failed to disclose its financial position in accordance with the relevant law and regulations or the financial report of the company contains false information;
- (3) the company has committed a material breach of the law; or
- (4) the company has incurred losses for each of the immediately preceding three years.

If the circumstances referred to in (2) and (3) above have occurred and investigation has established that the consequences are serious, or if the circumstances referred to in (1) and (4) above have occurred and the situation has not been rectified within the time stipulated, the securities administration department of the State Council may decide to terminate the listing of a company's shares in the event that the company has resolved to be wound up or is ordered by the relevant governmental authority to be dissolved, or the company is declared insolvent.

(e) Securities Law and Regulations

At present, the PRC has promulgated a number of regulations in relation to the issue and trading of shares and disclosure of information.

In early 1993, the State Council established the SCSC and the CSRC. The SCSC is responsible for co-ordinating the drafting of securities regulations, formulating securities related policies, planning the development of securities markets, directing, coordinating and supervising all securities related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the SCSC and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking research and analysis. From 29th March, 1998, the State Council replaced the SCSC with the CSRC which has assumed all the functions and responsibilities of the SCSC.

The Securities Provisional Regulation deals with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation and penalties and dispute settlement. These regulations specifically provide that the offer of shares by a PRC company directly and indirectly outside the PRC require the approval of the CSRC and also provide that separate measures will be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company proposes to issue Renminbi denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with the Securities Provisional Regulations; and (ii) provisions of the Securities Provisional Regulation in relation to acquisitions of listed companies and disclosure of information are expressed to apply to companies listed on a stock exchange in general without being confined to companies listed on any particular stock exchange. Such provisions may, therefore, be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the Stock Exchange.

On 12th June, 1993, the CSRC promulgated the Implementation Measures on Disclosure of Information by Companies Publicly Issuing Shares (公開發行股票公司信息披露實施細則) pursuant to the Securities Provisional Regulation. Under these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public in the PRC. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered

shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operation assets or writing down the value of such assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed by the shareholders or the supervisors of a company and the merger or demerger of company. These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Securities Provisional Regulation.

On 2nd September, 1993, SCSC promulgated the Provisional Measures Prohibiting Fraudulent Conduct Relating to Securities (禁止證券欺詐行為暫行辦法). The prohibitions imposed by these measures include the issue of insider information in connection with the issue of and trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities), the use of funds or information or through an abuse of power in creating a false or disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstance, and the marking or any statement in connection with the issue of and trading in securities which is false or materially misleading or in respect of which there is any material omission. Penalties imposed for contravening any of the provisions include fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

The Special Regulations contain provisions governing the issue, subscription, trading and declaration of dividends and other distributions of overseas listed foreign shares and disclosure of information, articles of association of joint stock limited companies having overseas listed foreign shares.

On 25th December, 1995, the State Council promulgated the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (國務院關於股份有限公司境內上市外資股的規定). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign shares.

On 29th December, 1998, the Standing Committee of the NPC promulgated the Securities law of the PRC (中華人民共和國證券法) which came into effect on 1st July, 1999. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities such as the issue of and trading in securities in the PRC securities market. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. Where the Securities Law does not apply, the provisions of the Company Law and other applicable laws and administrative regulations will apply.

On 29th March, 1999, the State Economic and Trade Commission and the CSRC promulgated the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas (關於進一步促進境外上市公司規範運作和深化改革的意見), which is aimed at regulating the internal operation and management of companies listed overseas. The Opinion regulates, amongst others, the appointments and functions of external directors and

independent directors on the board of directors; and the appointment and functions of external supervisors in the supervisory committee. The Company, upon listing of the H shares on the Stock Exchange will not be required to comply with these provisions until its board of directors and the supervisory committee are respectively up for rotation and the respective rotations are not due to occur until March 2001.

2. HONG KONG LEGAL AND REGULATORY PROVISIONS

(A) Hong Kong company law and its comparison with the PRC law applicable to a joint stock limited company incorporated under the Company Law

Hong Kong company law is primarily set out in the Companies Ordinance and supplemented by common law. There are material differences between Hong Kong company law and the PRC law applicable to a joint stock limited company incorporated under the Company Law, to which the Company is and will be subject, particularly in the area of investor protection. Certain material differences between the Company Law and Hong Kong company law are summarised below. This summary, however, is not intended to be an exhaustive comparison. It should also be noted that the summary relates only to joint stock limited companies incorporated under the Company Law.

Derivative action by minority shareholders

Hong Kong law allows minority shareholders to start a derivative action on behalf of the general body of shareholders in cases where, for example, one or more of the directors are in breach of duty and where their actions are shielded by the majority shareholders. The PRC Civil Procedure Law does not provide for such a procedure. Although the Company Law gives (a) shareholder(s) of a company the right to initiate proceedings in the People's Court in the PRC to challenge any decision made in a resolution adopted by shareholders in general meeting or at a meeting of the board of directors which is in violation of any law or infringes the lawful rights and interests of the shareholder(s), there is no form of proceedings which is the same as a derivative action under the Companies Ordinance. However, each of the Directors and Supervisors (as required by the GEM Listing Rules) has given a written undertaking to the Company (acting as agent for each shareholder) to observe and comply with his obligations to shareholders stipulated in the Articles of Association. This allows minority shareholders to commence direct actions against defaulting Directors or Supervisors.

Remedies of the Company

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law or administrative regulation or the articles of association of a company (the "Offending Person"), resulting in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. The Company shall, in addition to any rights and remedies provided by laws and administrative regulations, have a right to require the Offending Person to compensate for the losses sustained by the Company as a consequence of his dereliction of duty; rescind any contract or transaction concluded by the Company with such Offending Person; recover any funds received by the Offending Person and require the Offending Person to return the interest

earned on the funds that should have belonged to the Company. In addition, in compliance with the GEM Listing Rules, remedies of the Company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits made by a Director, Supervisor or officer) have been set out in the Articles of Association.

Directors, officers and supervisors

The Company Law provides for the disqualification of directors, supervisors and managers in circumstances where they enter into business contracts with the Company, and for prohibitions of certain unauthorised benefits, but contains no provision restricting the authority of the directors to make major dispositions or prohibiting payment to them for loss of office without shareholders' approval. The Company Law, unlike Hong Kong company law, does not contain restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits such as loans to directors and guarantees in respect of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. Neither does the Company Law contain any requirements relating to the declaration of material interests in contracts with the Company as is required under Hong Kong company law, nor restrictions on interested directors being counted towards the quorum of, and voting at, a meeting of the board of directors at which a transaction in which a director is interested is being considered. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association, a summary of which is set out in this Appendix.

Under Hong Kong company law, there is no concept of a supervisory committee for a company in addition to its board of directors, but a PRC joint stock limited company must have supervisors whose main duties include ensuring compliance with laws and regulations, and the articles of association of the company, by its directors and managers.

Each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he or she considers to be the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Minority protection

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may present a petition to the court either to wind up the company or to apply for an appropriate order regulating the affairs of the company. In addition, at the application by a specified number of members, the Financial Secretary of Hong Kong may appoint investigators who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The Company, as required by the Mandatory Provisions and the GEM Listing Rules, has adopted in the Articles of Association minority shareholder protection provisions similar to (though not as comprehensive as) those available under Hong Kong law, to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of other shareholders to

relieve a director or supervisor of his or her duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders. However, there is no specific provision in the Company Law to guard against oppression by majority shareholders of minority shareholders.

Receiving agent

Under both PRC and Hong Kong law, dividends once declared become debts payable to shareholders, but the limitation of action period is two years in the PRC as opposed to six years in Hong Kong. The Articles of Association provide for the appointment of an agent in Hong Kong which must be a trust corporation registered under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) to receive all dividends payable to H Share holders and all other monies owing by a joint stock limited company in respect of such H Shares on behalf of such shareholders as required by the GEM Listing Rules.

Financial assistance for the acquisition of shares

The Company Law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

Variation of class rights

The Company Law makes no specific provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in this Appendix.

Under the Companies Ordinance, no rights attached to any class of shares can be varied except with the approval of a special resolution of the holders of the relevant class at a separate meeting or the consent in writing of the holders of three-fourths in nominal value of the issued shares of the class in question or by agreement of all the members of the Company or if there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions.

The Company (as required by the GEM Listing Rules and the Mandatory Provisions) has adopted in the Articles of Association provisions protecting class rights in a similar manner to those found in Hong Kong law. Holders of H Shares and Domestic Shares are defined in the Articles of Association as different classes. Normally if the Company intends to change the rights of shareholders in different classes, a special resolution has to be passed by the shareholders in general meeting and by a separate shareholders' meeting convened by the affected shareholders in the different classes. However, this procedure is waived where (i) the Company issues and allots, in any 12-month period, pursuant to a

shareholders' special resolution, not more than 20% of each of the existing issued domestic shares and overseas listed foreign shares of the Company as at the date of the shareholders' special resolution; or (ii) where the plan for the issue of domestic invested shares and listed foreign invested shares upon the Company's establishment is implemented within 15 months of the date of approval by the Securities Commission. The Mandatory Provisions also contain detailed provisions relating to circumstances which are deemed to constitute variations of class rights.

Corporate reorganisations

Corporate reorganisations involving compromises with creditors and members in respect of Hong Kong incorporated companies are dealt with under section 166 of the Companies Ordinance and require court sanction. Corporate reorganisation involving Hong Kong incorporated companies may also be effected by the transfer of the whole or part of the business or property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance. However, in the latter case, the liquidator of the first company may, with the sanction of a special resolution, receive compensation from the transfer for distribution to the members of the transferor company. For PRC companies, such reorganisations are administratively considered and sanctioned under the Company Law.

Share capital

For a joint stock limited company formed under the Company Law, the registered share capital and the issued share capital are the same. For a Hong Kong company, the authorised share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders in general meeting, cause the company to issue new shares. In the case of a PRC company, any increase of the registered capital must be approved by the shareholders in general meeting and the relevant PRC government and regulatory authorities. After the completion of an approved new issue, the company has to register the increase in share capital with the relevant regulatory authority for industry and commerce.

The minimum registered capital of a company applying for the listing of its shares on a stock exchange is RMB50 million under the Company Law. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company.

Under the Company Law, shares issued in consideration of intangible assets (excluding rights to use) may not exceed 20% of a joint stock limited company's registered capital. There is no such restriction under Hong Kong law for a Hong Kong company.

Restriction on shareholding and transfer of shares

The Company Law makes no reference to the class of shares which may be subscribed for or traded by overseas investors but has provisions that shares of a company to be listed overseas must comply with the Special Regulations. The Special Regulations and the

Mandatory Provisions provide, among other things, that H shares must be in registered form and include other matters some of which are referred to above. There is no restriction under Hong Kong law on a person's ability to deal in shares in a Hong Kong company on the basis of his residence or nationality.

Under the Company Law, shares in a joint stock limited company held by its promoters, directors, supervisors or managers may not be transferred within certain periods of time. There is no such restriction under Hong Kong law.

Notice of meetings

Under the Company Law, shareholders of a joint stock limited company must be given 30 days' notice of a general meeting or, in the case of bearer shares, such notice should be published 45 days before the meeting. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders, and shareholders wishing to attend the meeting must reply in writing to reach the company 20 days before the date of the meeting. For a Hong Kong limited company, the minimum period of notice of a general meeting where convened for the purpose of considering ordinary resolutions is 14 days and where convened for the purpose of considering special resolutions, is 21 days. The notice period for an annual general meeting is also 21 days.

Quorum

Under Hong Kong company law, any two shareholders personally present will constitute a quorum for a general meeting, unless the articles of association provide otherwise.

The Company Law makes no specific provision as to when a quorum is regarded as being present but the Special Regulations and the Mandatory Provisions as well as the Articles of Association provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, that the company shall within 5 days notify shareholders in a public announcement once again of the matters to be examined at the meeting as well as the date and place of the postponed meeting. Upon notification by public announcement, the Company may hold the shareholders' general meeting.

Voting

Under the Hong Kong company law, ordinary resolutions are passed by more than one-half of the votes cast by those shareholders voting in person or by proxy at a general meeting and special resolutions are passed by not less than three-quarters of such votes.

Under the Company Law, the passing of any resolution requires the passing by more than half of the votes of the shareholders attending and voting except in cases of proposed amendment to the articles of association, merger, division or dissolution of a company, where two-thirds majority is required.

Dividends

The Articles of Association empower the Company to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years.

Financial disclosure

A joint stock limited company is required under the Company Law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, statement of changes in financial situation and other relevant annexes 20 days before the annual general meeting of shareholders. In addition, a company established by the public subscription method under the Company Law must publish its financial statements. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder (whether he is or is not entitled to receive notices of general meetings of the Company) a copy of its balance sheet and its annexures, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

Under the Articles of Association (as required by the GEM Listing Rules and the Mandatory Provisions), in addition to preparing accounts according to PRC accounting standards, the Company must have its accounts prepared and audited in accordance with international accounting standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards. The Company is further required to publish its interim, quarterly and annual accounts within 60 days from the end of the first six months of a financial year within 45 days from the end of the first three months and first nine months of a financial year and within 120 days from the end of a financial year, respectively.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on directors and shareholders

The Company Law gives shareholders the right to inspect a company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors similar to that available to shareholders of Hong Kong companies under Hong Kong law.

Arbitration of disputes

In Hong Kong, disputes between shareholders and a company or its directors, managers and other senior officers can be resolved through the courts. It is a requirement of the Mandatory Provisions and the GEM Listing Rules that the Articles of Association provide that disputes between a holder of H Shares and the Company and its directors, managers or other senior administrative officers or a holder of Domestic Shares arising from the Articles of Association, the Company Law or other relevant law or administrative regulation which concerns the affairs of the Company must, with certain exceptions (such as disputes over who is a shareholder), be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice. Such arbitration is final and conclusive.

Mandatory deductions

Under the Company Law, after tax profits of a company are subject to deductions of contributions to the statutory common reserve fund and the statutory public welfare fund of a company before they can be distributed to shareholders. There are prescribed limits under the Company Law for such deductions. There are no corresponding provisions under the Companies Ordinance.

Fiduciary duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Company Law and the Special Regulations, directors, supervisors, officers, and managers owe a fiduciary duty towards their company and are not permitted to be engaged in any activities which compete with or damage the interests of their company.

Closure of register of shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas the Articles of Association provide, as required by the Company Law, that share transfers may not be registered within 30 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

(B) Other legal and regulatory provisions

Upon the listing of the Company on GEM, the provisions of the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), the SDI Ordinance, the Securities (Insider Dealing) Ordinance (Chapter 395 of the Laws of Hong Kong), the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the GEM will apply to the Company.

(C) Securities Arbitration Rules

The Articles of Association provide that if any dispute or claim concerning the Company's business, in particular, the rights or obligations arising under the Articles of Association, the Company Law or relevant laws or administrative regulations, arises between holders of H Shares and the Company, such dispute or claim shall be arbitrated at either CIETAC or HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving disputes concerning the affairs of companies listed by the Stock Exchange and incorporated in the PRC (other than Hong Kong, Macau and Taiwan) so that PRC parties; and witnesses may attend. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditionally upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where any party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules of HKIAC, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

(D) GEM Listing Rules

The GEM Listing Rules contain certain provisions specifically relating to the primary listing of equity securities of companies incorporated or otherwise established in the PRC on the GEM. Set out below is a summary of the major provisions which apply to the Company.

Sponsor

The Company is required to retain, for at least the remainder of the financial year during which the listing occurs and two financial years thereafter, the services of a sponsor who must be approved by the Stock Exchange to be eligible to act as sponsor of a new applicant and is admitted to a list of sponsors maintained and published by the Stock Exchange from time to time. The sponsor must comply with the GEM Listing Rules so far as they are applicable to sponsors. These include the requirement that no sponsor may act for or continue to act for the Company in circumstances where any actual or potential conflict of interest impedes its ability to provide competent advice to the Company in a professional and impartial manner.

Where the Company consults the sponsor for guidance or advice in relation to the GEM Listing Rules, the sponsor has a responsibility to ensure that the Company is properly guided and advised, and must discharge that responsibility with due care and skill. The sponsor must not reveal any privileged information about or relating to the Company to anyone not authorised until the information has been the subject of a listing document, circular or formal announcement, particularly where such information may affect market activity in or the price of the Company's securities.

The sponsor shall ensure that a principal supervisor and an assistant supervisor remain actively involved in the provision of on-going advice and guidance sought by the Company. The sponsor shall act as the principal channel of communication with the Stock Exchange on behalf of the Company and must, so far as practicable, deal with all matters arising in relation to the Company which are raised by the Stock Exchange. The sponsor shall take all reasonable steps to brief all new Directors and Supervisors appointed by the Company as to the nature of their responsibilities under the GEM Listing Rules and other applicable laws and provisions relating to securities and the general nature of their obligations both in relation to the Company's shareholders and creditors.

The sponsor must also regularly review the Company's operating performance and financial condition against the Company's statement of business objectives and against any profit forecast, estimate or projection included in the Company's prospectus or otherwise made public by, or on behalf of, the Company in order to assist the Company in determining whether any announcement is necessary under the GEM Listing Rules. The sponsor shall, prior to publication, review with the Company all announcements, listing documents and circulars required to be issued under the GEM Listing Rules and the annual reports and accounts, half-year report and quarterly reports of the Company with a view to ensuring that the Directors understand the importance of disclosing all material information to shareholders and the market.

During the minimum period of the sponsor's appointment, it may only terminate its role as sponsor to the Company in exceptional circumstances, where it is no longer able to perform the role, and only after first notifying the Stock Exchange of the intended termination and the reasons therefor. If the appointment is terminated for whatever reason prior to the expiry of the minimum period, the Company and the sponsor must immediately notify the Stock Exchange. In such instances, an announcement must be published as soon as practicable stating the reasons for termination, and a replacement must be appointed within 3 months of the date on which the former sponsor ceased to act.

If the Stock Exchange considers that the sponsor has breached or failed to discharge any of its obligations under the GEM Listing Rules, it may impose sanctions on the sponsor including the issue of a private reprimand or a public statement which involves criticism or public censure, the removal of the sponsor from the list of sponsors maintained by the Stock Exchange or barring the sponsor from representing a specified party in relation to a stipulated matter or matters coming before the GEM Listing Division or the GEM Listing Committee for a stated period.

Accountants' reports

An accountants' report will not normally be regarded as acceptable by the Stock Exchange unless the financial history of results and the statement of assets and liabilities included in the accountants' report have been audited to a standard comparable to that required in Hong Kong which means that it must conform with either Hong Kong or international accounting standards.

Process agent

The Company must appoint and maintain the appointment of a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period its securities are listed on the GEM, and must notify the Stock Exchange of his appointment and any termination of his appointment and details of his contact particulars.

Public shareholding

If at any time there are existing issued securities of the Company other than H Shares which are listed on the Stock Exchange, the GEM Listing Rules require that (i) all H Shares must be held by the public except as otherwise permitted by the Stock Exchange in its

discretion; (ii) the H Shares held by the public must normally constitute not less than 10% of the Company's total existing registered capital; and (iii) the aggregate amount of H Shares and such other securities which are held by the public must constitute not less than the minimum prescribed percentage of the Company's total registered capital.

The minimum prescribed percentage for a company whose market capitalisation at the time of listing does not exceed HK\$4,000 million (as in the case of the Company) is 25%. If such market capitalisation is over HK\$4,000 million, the minimum prescribed percentage is the higher of either percentage that would result in the market value of the securities to be in public hands being equal to HK\$1,000 million (determined as at the time of listing) or 20%.

Corporate governance

The Directors are collectively and individually responsible for ensuring the Company fully complies with the GEM Listing Rules. Every Director must satisfy the Stock Exchange that he has the character, experience and integrity and is able to demonstrate a standard of competence commensurate with his position as a director of the Company. The Directors are expected to be fully aware of and observe the GEM Listing Rules, which also set out the minimum standards of good practice concerning their general management responsibilities. The Directors must respond in a prompt and efficient manner to all enquiries directed at him by the Stock Exchange.

If the securities of the Company are or are to be listed on one or more stock exchanges, the sponsor of the Company must make a written submission to the Stock Exchange stating whether in the sponsor's opinion the Directors appreciate the differences as well as the similarities between H shares and the shares listed on such other stock exchange and between the rights and obligations of holders of such shares and basis for such opinion. The sponsor must also explain how the Directors propose to co-ordinate and comply in a timely manner with their obligations under the requirements of the Stock Exchange and such other stock exchange.

The Company must ensure that its board of directors consist of at least 2 independent non-executive directors. If an independent non-executive director resigns or is removed from office, both the Company and the individual concerned must immediately notify the Stock Exchange, in each case stating the reasons therefor.

Both directors and supervisors must undertake with the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Hong Kong Codes on Takeovers and Mergers and Share Repurchase and that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment.

The Company must also appoint the company secretary who has the requisite knowledge and experience to discharge the functions of the secretary to the Company. At all times, the Company must retain a qualified accountant to assist the Company with its financial reporting procedures and internal controls. One of the executive directors of the Company must also act as the Company's compliance officer, whose role includes advising

on and assisting the board of Directors in implementing procedures to comply with the GEM Listing Rules and other relevant laws and regulations. In addition, the Company must have 2 authorised representatives who must be 2 individuals from amongst the Company's executive directors and company secretary.

An audit committee must also be set up by the Company comprising of a minimum of 2 members and whose majority must be the independent non-executive directors of the Company. There must be clear written terms of reference for the audit committee which clearly establishes its authority and duties. Members of the audit committee have full and unlimited access to all books and accounts of the Company and any personnel of the Company they wish to consult. Responsibilities of the audit committee include reviewing and supervising the Company's financial reporting and internal control procedures.

With a view to increasing the level of protection afforded to investors, the Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on GEM, of the Mandatory Provisions and provisions including those relating to the change, removal and resignation of auditors, classification of shareholders and the conduct of the supervisory committee of the Company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in this Appendix.

Restrictions on purchase

The Company may purchase its own Shares on the GEM or on another stock exchange in accordance with the GEM Listing Rules and the Share Repurchase Code. Shareholders' approvals must first be obtained prior to carrying out a share repurchase, by way of the special resolutions of shareholders in general meetings and of the holders of Domestic Shares and the holders of H Shares at separate class meetings, in accordance with the procedures prescribed by the Articles of Association. When seeking shareholders' approval to make purchases of its securities on the GEM or when reporting such purchases, the Company should provide an explanatory statement to its shareholders on the proposed or actual purchase of any or all of its equity securities, whether or not listed or traded on the GEM. The explanatory statement should contain all the information reasonably necessary to enable the shareholders to make an informed decision on approving the resolution. There should also be a statement as to the consequences of any purchases which will arise under either or both of the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and any similar applicable law of which the Directors are aware, if any. Any specific approval or general mandate given to the Directors to repurchase H Shares must not exceed 10% of the total amount of existing issued H Shares.

Register of holders of H Shares

Provision must be made for a register of holders of H Shares to be maintained in Hong Kong and for transfers to be registered locally. Unless the Stock Exchange otherwise agrees, only securities registered on the Hong Kong register may be traded on GEM.

Preemptive rights

Except in the circumstances mentioned below, the Directors must obtain the approval by a special resolution of Shareholders in general meeting, and the approvals by special resolutions of holders of Domestic Shares and holders of H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association prior to:

- (i) authorising, allotting, issuing or granting;
 - (a) Shares;
 - (b) securities convertible into Shares; or
 - (c) options, warrants or similar rights to subscribe for any Shares or such convertible securities; or
- (ii) any major subsidiary (if any) of the Company making any such authorisation, allotment, issue or grant so as materially to dilute the percentage equity interest of the Company and its shareholders in such subsidiary.

No such approval shall be required in the case of authorising, allotting or issuing Shares if, but only to the extent that:

- (i) the existing shareholders of the Company have by special resolution in general meeting given approval, either unconditionally or subject to such terms and conditions as may be specified in the resolution, for the Company to authorise, allot or issue either separately or concurrently once in every 12 months (commencing on the date on which the Shareholders pass such resolution), not more than 20% of each of the existing Domestic Shares and H Shares as at the date of the passing of the relevant special resolutions; or
- (ii) such Shares are part of the Company's plan at the time of its establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by CSRC or such other competent state council securities regulatory authority.

Notwithstanding the above, the Company shall obtain the approval by special resolution of the Shareholders in general meeting prior to allotting any voting Shares if such allotment would effectively alter the control of the Company.

Changes to articles of association

The Company shall not at any time permit or cause any amendment to be made to the Articles of Association which would cause them to cease to comply with the GEM Listing Rules and in particular, the Mandatory Provisions.

Documents for inspection

The Company must make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charges, the following:

- (a) a complete duplicate of the register of shareholders;
- (b) a report showing the state of the issued share capital of the Company;
- (c) the Company's latest audited financial statements and the reports of the Directors', auditors' and Supervisor, if any, thereon;
- (d) special resolutions of the Company;
- (e) reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- (f) a copy of the latest annual return filed with the PRC State Administration for Industry and Commerce or other relevant PRC authority; and
- (g) for shareholders only, copies of the minutes of meetings of shareholders.

Appointment of receiving agents

The Company must appoint one or more receiving agents in Hong Kong and pay to such agents dividends declared and other monies owing by the Company in respect of H Shares listed on GEM to be held, pending payment, in trust for holders of the H Shares.

Statements to be made on acquisition of shares

The Company must ensure that all its listing documents and share certificates include the statements stipulated below and must instruct and cause its share registrar not to register the subscription, purchase or transfer of any of its H Shares in the name of any particular holder unless and until such holder delivers to such share registrar a signed form in respect of such shares bearing statements to the following effect:

- (a) The acquirer of Shares agrees with the Company and each shareholder of the Company, and the Company agrees, with each shareholder, to observe and comply with the Company Law, the Special Regulations and the Articles of Association.
- (b) The acquirer of Shares agrees with the Company, each shareholder, Director, Supervisor, manager and officer of the Company and the Company acting for

itself and for each Director, Supervisor, manager and officer agrees with each shareholder to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association. Any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration shall be final and conclusive.

- (c) The acquirer of Shares agrees with the Company and each shareholder of the Company that H Shares in the Company are freely transferable by the holder thereof.
- (d) The acquirer of Shares authorises the Company to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association.

Compliance with the Company Law, the Special Regulations and the Articles of Association

The Company must observe and comply with the Company Law, the Special Regulations and the Articles of Association.

Contract between the Company and every Director and officer

The Company must enter into a contract in writing with every Director and officer of the Company containing at least the following provisions:

- (a) an undertaking by the Director or officer to the Company to observe and comply with the Company Law, the Special Regulations, the Articles of Association, the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Director or officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- (c) an arbitration clause which provides that whenever any disputes or claims arise from the contract, the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company between (1) the Company and its Directors or officers and (2) a holder of H Shares and a Director or officer of the Company, such disputes or claims shall be resolved through arbitration at either CIETAC in accordance with its arbitration rules or

HKIAC in accordance with its Securities Arbitration Rules, at the election of the party seeking arbitration. Where a dispute or claim described above is referred to arbitration, the entire dispute or claim shall be resolved through that arbitration; all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, if they are shareholders, directors, supervisors, managers or other officers of the Company or the Company, shall submit to arbitration.

Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC. The party seeking arbitration may elect to have the dispute or claim arbitrated either by CIETAC or HKIAC and once the party seeking arbitration submits a dispute or claim to arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration.

PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations. The award of the arbitral body is final and shall be binding on the parties thereto.

The agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder. Any reference to arbitration is deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

Contract between the Company and every Supervisor

The Company must enter into a contract in writing with every Supervisor containing at least the following provisions:

- (a) an undertaking by the Supervisor to the Company to observe and comply with the Company Law, the Special Regulations and the Articles of Association and an agreement that the Company will have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- (b) an undertaking by the Supervisor to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- (c) the arbitration clause in terms set out in sub-paragraph (c) in the preceding paragraph on “Contract between the Company and every Director and officer” above subject to necessary modifications.

Subsequent listing

The Company must apply for the listing of any further securities which are of the same class as securities already listed, prior to their issue, and must not issue such securities unless it has applied for their listing. The Company must not apply for the listing of any of its foreign invested shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of overseas listed foreign shares are adequately protected.

English translation

All documents furnished by the Company, including accounts, which are in a language other than English or Chinese, must be accompanied by a certified English or Chinese translation.

General

If changes in the PRC law or market practices materially alter the validity or accuracy of any of the bases upon which the above requirements have been prepared, then the Stock Exchange may impose additional requirements or make the listing of the equity securities of a PRC issuer, including the Company, subject to such special conditions as the Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Stock Exchange retains its general power under the GEM Listing Rules to impose additional requirements and make special conditions in respect of the listing of the shares of the Company.

3. ARTICLES OF ASSOCIATION

Set out below is a summary of the principal provisions of the Articles of Association which were adopted at the extraordinary shareholders' meeting of the Company held on 20th April, 2002 and approved by the Board on 20th April, 2002. A copy of the full Chinese text of the Articles of Association, together with a certified English translation thereof, is available for inspection as mentioned in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix VII.

(1) Directors**(a) Power to allot and issue shares**

There is no provision empowering the board of Directors to allot or issue shares.

In order to allot or issue shares, the board of Directors shall prepare a plan which shall be approved by shareholders in general meeting by way of a special resolution and submit the plan to the relevant government authorities for approval.

(b) *Power to dispose of the Company's or any of its subsidiaries' assets*

The board of Directors shall not, without the approval of shareholders in general meeting, dispose or agree to dispose of any fixed assets of the Company where the aggregate of:

- (i) the value of the consideration for the proposed disposition; and
- (ii) where any fixed assets of the Company have been disposed of in the period of four months immediately preceding the proposed disposition, the amount or value of the consideration for any such disposition, exceeds 33% of the value of the Company's fixed assets as shown in the last audited balance sheet placed before the shareholders in general meeting. For the purposes of this provision, disposition includes an act involving a transfer of an interest in property other than by way of security.

The validity of a transaction for the disposition of fixed assets by the Company shall not be affected by a breach of the above-mentioned restriction contained in the Articles of Association.

(c) *Compensation or payments for loss of office*

In the contract for emoluments entered into by the Company with a Director or supervisor, provisions shall be made for the right of the Director or supervisor to receive, after obtaining the prior consent of shareholders in general meeting, payments by way of compensation for loss of office or as consideration for his retirement from office:

- (i) in particular, such contract of emoluments shall make provision for the right of a Director or supervisor, in connection with the takeover of the Company, subject to the approval of the shareholders in a general meeting, to receive compensation or other payment for loss of office or as consideration for his retirement for office. A takeover of the Company means:
 - (aa) an offer made to all shareholders of the Company; or
 - (bb) an offer is made such that the offeror will become the controlling shareholder of the Company (as defined in the Articles of Association);
- (ii) if the relevant Director or supervisor does not comply with (i) above, any sum received by the Director or supervisor on account of the payment shall belong to those persons who have sold their shares as a result of the offer, and the expenses incurred by the Directors or supervisor in distributing that sum pro rata amongst those persons shall be borne by him and not deducted from the sum distributed.

(d) *Loans to directors*

The Company is prohibited from directly or indirectly making any loan to its Directors, Supervisors, general manager or deputy general managers or other officers or those of its holding company, providing any guarantee in connection with a loan made by any person to such a Director, supervisor, general manager, deputy general manager or other officer, or making a loan to or providing any guarantee in connection with any loan made by any person to a person connected to such a Director, supervisor, general manager or deputy general manager or other officer.

A loan made by the Company in breach of the prohibition described above shall be forthwith repayable by the recipient of the loan regardless of the terms of the loan. A guarantee for a loan provided by the Company in breach of the prohibition described above shall be unenforceable against the Company unless:

- (i) the guarantee was provided in connection with a loan to a person connected with a Director, supervisor, general manager, deputy general manager or other officer of the Company or its holding company and at the time the loan was advanced the lender did not know of the relevant circumstances, or
- (ii) the collateral provided by the Company has been lawfully disposed of by the lender to a bona fide purchaser.

The following transactions are not subject to the foregoing prohibition:

- (i) the provision of a loan or a guarantee for a loan by the Company to a company which is a subsidiary of the Company;
- (ii) the provision of a loan or a guarantee for a loan by the Company, under a service contract with any of its Directors, supervisors, general manager, deputy general managers or other officers as approved by shareholders in general meeting and the provision of funds by the Company to any of its Directors, supervisors, general manager, deputy general managers or other officer to meet expenditure incurred or to be incurred by him for the purposes of the Company or for the purpose of enabling him properly to perform his duties; and
- (iii) the Company may make a loan to or provide a guarantee in connection with a loan by another person to any of its Directors, supervisors, general manager, deputy general managers or other officers or other connected persons where the ordinary course of its business includes the making of loans or the giving of guarantees and provided that the making of such loans or the giving of such guarantees is on normal commercial terms.

For these purposes, guarantee includes an undertaking or property provided to secure the performance of obligations by the obligor.

- (e) *Giving of financial assistance to purchase the Company's or any of its subsidiaries' shares*

Subject to the Articles of Association:

- (i) neither the Company nor any of its subsidiaries shall at any time or in any manner provide financial assistance to a person who acquires or is proposing to acquire shares in the Company. The said person includes any person who has directly or indirectly incurred a liability as a result of the acquisition of shares in the Company; and
- (ii) neither the Company nor any of its subsidiaries shall at any time or in any manner provide financial assistance to the person mentioned in the foregoing paragraph for the purposes of reducing or discharging his liabilities.

The following transactions are not prohibited:

- (i) the provision of financial assistance where the Company's principal purpose for giving that assistance is genuinely for the Company's interest and not to give it for the purpose of acquiring the Company's shares or the giving of the assistance is but an incidental part of some broader purpose of the Company;
- (ii) a distribution of the Company's assets by way of dividend lawfully declared;
- (iii) a distribution of dividends by way of bonus shares;
- (iv) a reduction of share capital, repurchase of shares of the Company or a reorganisation of the share capital effected in compliance with the Articles of Association;
- (v) the provision of loans by the Company in the ordinary course of its business, provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, the assistance is provided out of distributable profits; and
- (vi) the provision of money by the Company for contributions to employees' share schemes provided that the Company's net assets are not thereby reduced or, to the extent that those assets are thereby reduced, the assistance is provided out of distributable profits.

For these purposes,

- (i) "financial assistance" includes, without limitation:
 - (aa) assistance given by way of gift;

- (bb) assistance given by way of guarantee (including the provision of any undertaking or property to secure the performance of obligations by the obligor) or indemnity, (other than an indemnity in respect of the Company's own default) or by way of release or waiver;
 - (cc) assistance given by way of a loan or any other agreement under which the obligations of the Company are to be fulfilled before the obligations of another party to the agreement or by way of the novation of or the assignment of rights arising under such loan or such other agreement; or
 - (dd) assistance given by the Company in any other manner when the Company is insolvent or has no net assets or where its net assets would thereby be reduced to a material extent; and
- (ii) "incurring a liability" includes changing one's financial position by making an agreement or arrangement (whether enforceable or unenforceable, and whether made on one's own account or with any other person) or by any other means.
- (f) *Disclosure of interests in contracts with the Company or any of its subsidiaries*
- (i) Where a Director, supervisor or general manager or deputy general manager or other officer is in any way, directly or indirectly, materially interested in a contract, transaction or arrangement or proposed contract, transaction or arrangement with the Company other than his contract of service, he shall declare the nature and extent of his interest to the board of Directors at the earliest opportunity, whether or not the contract, transaction or arrangement or proposal therefore is otherwise subject to the approval of the Directors.
 - (ii) Unless the interested Director or supervisor or general manager or deputy general manager or other officer has disclosed his interest in accordance with the Articles of Association and the contract, transaction or arrangement has been approved by the board of Directors at a meeting at which the interested Director, supervisor, general manager, deputy general manager or other officer is not counted in the quorum and has refrained from voting, a contract, transaction or arrangement in which a Director, supervisor, general manager, deputy general manager or other officer is materially interested can be rescinded at the instance of the Company provided that such rescission will not affect the validity of such contract, transaction or arrangement as against a bona fide party thereto acting in good faith. For these purposes, a Director, supervisor or general manager or deputy general manager or other officer is deemed to be interested in a contract, transaction or arrangement in which a person connected to him is interested.
 - (iii) Where a Director, supervisor, general manager, deputy general manager or other officer of the Company gives the board of Directors a general notice in writing stating that, by reason of the facts stated in the notice, he is interested in contracts, transactions or arrangements of any description which may subsequently be entered into by the Company, then he shall be deemed to have made a disclosure for the purposes of the relevant provisions in the Articles of

Association so far as the content stated in such notice is concerned, if such notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by the Company.

(g) *Remuneration*

The Company shall, with the prior approval of shareholders in general meeting, enter into a contract in writing with each Director or supervisor for emoluments in respect of their services. In such a contract, the manner of determining any payments payable to a Director or supervisor for loss of office when the Company is being taken over shall also be specified. The said emoluments include:

- (i) emoluments in respect of their services as Director, supervisor or officer of the Company;
- (ii) emoluments in respect of their services as Director, supervisor or officer of any subsidiary of the Company;
- (iii) emoluments otherwise in connection with services for the management of the Company or any subsidiary thereof; and
- (iv) payments by way of compensation for loss of office, or as consideration for or in connection with their retirement from office.

Except under a contract entered into in relation to the above, no proceedings shall be brought by a Director or supervisor against the Company for anything due to him in respect of the matters specified above.

(h) *Retirement, appointment and removal*

A person who is not a natural person may not serve as a Director, supervisor, general manager, deputy general manager or other office of the Company.

The following persons may not serve as a Director, supervisor, general manager, deputy general manager or officer of the Company:

- (i) an individual who has no civil capacity or has restricted civil capacity;
- (ii) persons who have committed the offences of corruption, bribery, trespass of property misappropriation of property or damaging the social economic order, and have been penalised due to the above offences, where less than five years have elapsed since the date of the completion of implementation of the penalty or persons who have committed crimes and have been deprived of their political rights due to such crimes, where less than five years have elapsed since the date of the completion of the implementation of such deprivation;

- (iii) persons who were former directors, factory chiefs or managers of a company or enterprise which has become insolvent and has been liquidated as a result of mismanagement and were personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the insolvency and liquidation of such company or enterprise;
- (iv) persons who were legal representatives of a company or enterprise which had its business licence revoked due to a violation of the law and who were personally liable, where less than three years have elapsed since the date of the revocation of such business licence;
- (v) persons who have failed to pay a relatively large debt when due and outstanding;
- (vi) persons who have committed criminal offences and are still under investigation by law administration authorities;
- (vii) persons who, according to the laws and administrative regulations, are not allowed to act as leaders of enterprises;
- (viii) any legal entities or otherwise who are not natural persons; and
- (ix) persons who have been convicted of offences of violating provisions of the relevant securities laws and regulations or offences of fraud or acting in bad faith, where less than 5 years have lapsed since the date of conviction.

The validity of the conduct of Directors, general manager, deputy general manager or officers who have acted on behalf of the Company with respect to third parties who have acted in good faith shall not be affected due to any irregularity in the employment, election or qualification of such Directors, general manager, deputy general managers or officers.

The board of Directors shall consist 8 of Directors. The Directors shall be elected at shareholders' general meetings. A Director is not required to hold any shares in the Company.

The chairman and vice-chairman of the board of Directors shall be elected or removed by more than one half of all of the Directors.

The term of office of the chairman, vice-chairman and other Directors shall be 3 years commencing from the date of appointment, renewable upon reappointment or re-election.

(i) *Borrowing powers*

On condition of compliance with the laws and administrative regulations of the State, the Company is entitled to raise capital and borrow money, including (without limitation) the issue of bonds, the mortgaging or pledging of part or whole of the Company's business or properties and other rights permitted by the laws and administrative regulations of the State.

(j) *Liabilities*

The Directors, supervisors, general manager, deputy managers and officers of the Company owe fiduciary duties and duties of diligence to the Company.

In addition to any rights and remedies provided for in relevant laws and administrative regulations, the Company is entitled to adopt the following measures where a Director, supervisor, general manager, deputy manager or officer is in breach of his duties owed to the Company:

- (i) to claim against such a Director, supervisor, general manager, deputy general manager or officer for losses incurred as a result of his breach;
- (ii) to rescind any contract or transaction entered into between the Company and the Director, supervisor, general manager, deputy manager or officer and a third party where such third party has knowledge or should have had knowledge of the breach of duty;
- (iii) to demand an account of the profits made by the Director, supervisor, general manager, deputy general manager or officer as a result of his breach;
- (iv) to recover any monies received by the Director, supervisor, general manager, deputy general manager or officer which should have been received by the Company, including, without limitation, commissions; and
- (v) to demand the return of the interest earned or which may have been earned on any monies referred to in (iv) above by the Director, supervisor, general manager, deputy general manager or officer which should have been received by the Company.

A Director may be removed with the sanction of an ordinary resolution at a shareholders' general meeting.

The board of Directors shall carry out its duties in compliance with the laws and administrative regulations, the Articles of Association and resolutions of the shareholders' general meetings.

Each Director, supervisor, general manager, deputy general manager and officer of the Company should abide by his fiduciary principles in the discharge of his duties, and not to place himself in a position where his duty and his own interests may conflict. Such principles include (but are not limited to) the performance of the following:

- (i) to act honestly in what he considers to be in the best interests of the Company;
- (ii) to exercise his powers within the scope specified and not to act ultra vires;

- (iii) to exercise the discretion vested in him personally and not allow himself to act under the direction of another and, unless and to the extent permitted by law or the informed consent of shareholders in general meeting, not to delegate the exercise of his discretion;
- (iv) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (v) except in accordance with the Articles of Association or with the informed consent of shareholders in general meeting, not to enter into any contract, transaction or arrangement with the Company;
- (vi) not without the informed consent of shareholders in general meeting, to use the Company's assets for his own benefit;
- (vii) not to use his position to accept bribes or other illegal income and not to expropriate in any manner the Company's assets, including (without limitation) opportunities beneficial to the Company;
- (viii) not, without the informed consent of shareholders in general meeting, to accept commissions in connection with the Company's transactions;
- (ix) to abide by the Articles of Association, faithfully perform his duties and protect the interests of the Company, and not to use his position and powers in the Company to seek personal gain;
- (x) not to compete with the Company in any way except with the informed consent of shareholders given in general meeting;
- (xi) not to misappropriate the Company's funds or lend such funds to any other person, not to open any bank account in his own name or other name for the deposit of the Company's assets and not to provide security for debt of a shareholder of the Company or any other individuals with the Company's assets; and
- (xii) without the informed consent of shareholders in general meeting, not to disclose confidential information of the Company acquired while in office and not to use such information other than in furtherance of the interests of the Company, save and except that disclosure of information to a court or a governmental authority is permitted where (i) the disclosure is made under compulsion of law; (ii) there is a duty to the public to disclose; or (iii) the personal interests of the Director, Supervisor, general manager, deputy general manager or officer require disclosure.

A Director, supervisor or general manager or deputy general manager or an officer of the Company shall not direct persons connected to him to do what he is not permitted to do. A person is connected to a Director, supervisor, general manager, deputy general manager or an officer if he is:

- (i) the spouse or minor child of such a Director, supervisor, general manager, deputy general manager or officer;
- (ii) a trustee for such a Director, supervisor, general manager, deputy general manager or officer or any person referred to in (i) above;
- (iii) a partner of such a Director, supervisor, general manager, deputy general manager, manager or officer or of any person;
- (iv) a partner of such a Director, supervisor, general manager, deputy general manager or officer or of any person referred to in (i) and (ii) above;
- (v) a company in which that a Director, supervisor, general manager, deputy general manager or other senior officer, alone or jointly with one or more persons referred to in above (i), (ii) and (iii) or with any of other Directors, supervisors, general manager, deputy general managers or other senior officers of the Company, have de facto control; or
- (vi) a director, supervisor, general manager, deputy general manager or officer of a company referred to in (iv) above.

The fiduciary duties of a Director, supervisor, general manager, deputy general manager and other senior officer of the Company do not necessarily cease with the termination of his tenure. The duty of confidentiality in relation to trade secrets of the Company survives the termination of his term of office. Other duties may continue for such period as fairness may require depending on the time lapse between the termination of his term of office and the occurrence of the matter in question and the circumstances and the terms under which the relationships between him and the Company are terminated.

Except in circumstances referred to in the Articles of Association, liabilities of a Director, supervisor, general manager, deputy general manager or other officer arising from the violation of a specified duty may be released by informed shareholders in general meeting.

In addition to obligations imposed by relevant laws, administrative regulations or the listing rules of the securities exchange on which the Company's shares are listed, Directors, supervisors, general manager, deputy general managers and officers in the exercise of their powers and the discharge of their duties shall owe the following obligations to the shareholders:

- (i) not to cause the Company to go beyond the business scope specified by its business licence;

- (ii) to act honestly in what they consider to be in the best interests of the Company;
- (iii) not to deprive in any way the Company of its assets, including (but not limited to) opportunities beneficial to the Company; and
- (iv) not to deprive shareholders of their personal rights and interests, including (but not limited to) rights to distributions and to vote, except in a Company reorganisation submitted in accordance with the provisions of the Articles of Association and adopted at a shareholders' general meetings.

Each of the Company's Directors, supervisors, general manager, deputy general managers and other officers owes a duty, in the exercise of his powers and discharge of his duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise under similar circumstances.

(2) Alterations to constitutional documents

The Company may, in accordance with provisions contained in relevant laws, administrative regulations and the Articles of Association, amend its Articles of Association.

The amendments to the Articles of Association involving the contents of the Mandatory Provisions shall become effective upon approval by the company approval authorities of the State Council and the securities regulatory authority of the State Council. If there is any change relating to the registered particulars of the Company, application shall be made for registration of the changes in accordance with law.

(3) Variation of rights of existing shares or classes of shares

The Company may not vary or abrogate rights attached to any class of shares ("Class Rights") unless approved by a special resolution of shareholders in general meeting and by more than a two thirds majority of holders of shares of that class at a separate meeting conducted in accordance with the provisions of the Articles of Association.

The following circumstances shall be deemed to be a variation or abrogation of the Class Rights of a class:

- (i) to increase or decrease the number of shares of such class, or increase or decrease the number of shares of a class having voting or distribution rights or other privileges equal or superior to the shares of such class;
- (ii) to effect an exchange of all or part of the shares of such class into those of another class or to effect an exchange or create a right of exchange of all or part of the shares of another class into the shares of such class;
- (iii) to remove or reduce rights to accrued dividends or rights to cumulative dividends of such class;

- (iv) to reduce or remove a dividend preference or a liquidation preference attached to shares of such class;
- (v) to add, remove or reduce conversion, options, voting, transfer or pre-emptive rights or rights to acquire securities of the Company of such class;
- (vi) to remove or reduce rights to receive payments from the Company in any particular currency;
- (vii) to create a new class of shares having voting or distribution rights or privileges equal or superior to the shares of such class;
- (viii) to restrict the transfer of ownership of the shares of such class or to increase any such restrictions;
- (ix) to allot and issue rights to subscribe for, or convert into, shares in the Company of such class or another class;
- (x) to increase the rights or privileges of another class;
- (xi) to restructure the Company where the proposed restructuring will result in different classes of shareholders bearing a disproportionate burden of such proposed restructuring; and
- (xii) to vary or abrogate the provisions in the Articles of Association. Shareholders of the affected class, whether or not having the right to vote at general meetings, shall nevertheless have the right to vote at class meetings in respect of matters concerning paragraphs (ii) to (viii), (xi) and (xii) above, but Interested Shareholder(s) (as defined below) shall not be entitled to vote at class meetings.

Resolutions of a class of shareholders shall require the approval of shareholders present representing more than two thirds of the voting rights of that class voting in favour of such resolutions.

Written notice of a class meeting shall be given by the Company 45 days prior to the date of the meeting to notify all the registered shareholders holding shares of that class of the matters to be considered at the meeting and the date and place of the meeting.

A shareholder who intends to attend the meeting shall deliver a written reply confirming his attendance at the class meeting to the Company 20 days prior to the date of the meeting.

The Company can convene a class shareholders' meeting, if the number of shares of the class carrying voting rights represented by shareholders intending to attend represents more than one half of the total number of such shares of the Company. If not, the Company shall make an announcement, within five days, once again notifying the shareholders of the matters proposed to be considered and the date and place of the meeting. Once an announcement has been so made, the Company may convene the class shareholders' meeting.

Notice of class meetings need only be served on shareholders entitled to vote thereat.

Meetings of any class of shareholders shall be conducted in a similar way as closely as possible to the provisions for general meetings of shareholders set out in the Articles of Association. The Provisions of the Articles of Association relating to the conduct of any meeting of shareholders shall apply to any class meeting.

In addition to holders of other class shares, domestic-investment shareholders and overseas-listed foreign investment shareholders are deemed to be shareholders of different classes.

Special procedures for voting by holders of different classes of shares do not apply to the following situations:

1. where the Company issues, upon the approval by special resolution of its shareholders in general meeting, either separately or concurrently once every twelve months, not more than 20% of each of its existing issued Domestic-Invested Shares or Overseas-Listed Foreign-Invested Shares; or
2. where the Company's plan (made at the time of its establishment) to issue Domestic-Invested Shares and Overseas-Listed Foreign-Invested Shares is completed within 15 months from the date on which approval is given by the securities regulatory authorities of the State Council.

For the purposes of the class rights provisions of the Articles of Association, an "Interested Shareholder" is:

- (i) in the case of a repurchase of shares by offers to all shareholders or public dealing on a stock exchange under Article 33 of the Articles of Association, a controlling shareholder within the meaning of Article 57 of the Articles of Association;
- (ii) in the case of a repurchase of shares by an off-market contract under the Articles of Association, a shareholder to whom the proposed contract is related; or
- (iii) in the case of a restructure of the Company, a shareholder within a class who bears less than a proportionate amount of obligations imposed on the shareholders of that class or who has an interest different from the interest of the other shareholders of that class.

(4) Special resolutions — majority required

Resolutions of general meetings are divided into ordinary resolutions and special resolutions.

To adopt an ordinary resolution, more than the one half votes represented by shareholders (including proxies) present at the meeting must be exercised in favour of the resolution.

To adopt a special resolution more than two thirds of the votes represented by the shareholders (including proxies) present at the shareholders' general meeting must be exercised in favour of the resolution.

(5) Voting rights (generally, on a poll and right to demand a poll)

At any meeting of shareholders, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or after any vote by show of hands) demanded:

- (i) by the chairman of the meeting;
- (ii) by at least two shareholders present in person or by proxy and having the right to vote;
or
- (iii) by one or more shareholders present in person or by proxy and representing one tenth or more of all shares carrying the right to vote at the meeting.

Unless a poll is so demanded, a declaration by the chairman whether a resolution has on a show of hands been passed or not, and an entry to that effect in the book containing the minutes of the meeting shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution. A demand for a poll may be withdrawn by the person who demanded it.

A poll demanded on the election of the chairman of the meeting or on a question of adjournment of the meeting shall be taken forthwith. A poll demanded on any other matters shall be taken at such time as the chairman of the meeting decides, and the meeting may proceed to consider and vote on other matters. The result of the poll shall be deemed to be a resolution of the meeting at which the poll was demanded.

On a poll taken at a meeting, a shareholder (including a proxy) entitled to two or more votes need not cast his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting at which the show of hands takes place or at which the poll is demanded shall be entitled to one additional vote.

(6) Requirements for annual general meetings

A shareholders' general meeting shall either be an annual general meeting or an extraordinary general meeting. Shareholders' general meetings shall be convened by the board of Directors. Annual general meetings are held once every year within six months after the financial year end.

(7) Accounts and audit

(a) *Financial and accounting system*

The Company shall establish its financial and accounting systems and internal audit system in accordance with the laws, administrative regulations and PRC accounting standards formulated by the finance regulatory authority of the State Council.

The board of Directors of the Company shall place before the shareholders at every annual general meeting such financial reports as are required by the laws, administrative regulations or directives promulgated by competent local governments and supervisory authorities to be prepared by the Company.

The financial statements of the Company shall, in addition to being prepared in accordance with the PRC accounting standards and regulations, be prepared in accordance with either international accounting standards or that of the place outside PRC where the Company's shares are listed. If there is any material difference between the financial statements prepared respectively in accordance with the aforesaid accounting standards, such difference shall be stated and explained in the financial statements. For the purposes of distribution of the Company's after-tax profits in a financial year, the lower of the after-tax profits as shown in the different set of financial statements shall be adopted.

The financial reports of the Company shall be made available at the Company for inspection by shareholders 20 days before the annual general meeting. Every shareholder of the Company is entitled to a copy of the financial reports. The Company shall send by pre-paid post to every overseas-listed foreign-investment shareholder at least 21 days prior to the date of the meeting a copy of such report, such copy to be sent to the address of such shareholders as recorded on the register of shareholders.

The interim results or financial information that the Company announces or discloses shall be compiled according to both PRC accounting standards, rules and regulations, and international accounting standards or accounting standards of the place at which shares of the Company are listed.

The Company shall disclose its financial reports four times in each financial year, that is, its interim financial reports within 45 days of the end of the first six months of a financial year, its quarterly report with 45 days from the end of the first three months and the first nine months and its annual financial reports within 3 months of its financial year end.

The Company shall not keep any other books of accounts other than those provided by law. The Company shall implement an internal audit system, and establish an internal auditing organization or provide internal auditing personnel to undertake the internal auditing and supervision over the Company's income and expenses and other economic activities under the leadership of the supervisory committee.

(b) *Appointment and removal of Accounting Firm*

The Company shall appoint an independent firm of accountants which is qualified under the relevant regulations of the State to audit the Company's annual reports and review the Company's other financial reports.

The first accounting firm of the Company may be appointed by the inaugural meeting prior to the first annual general meeting and the accounting firm so appointed shall hold office until the conclusion of the first annual general meeting.

If the inaugural meeting fails to exercise its powers as stipulated in the preceding paragraph those powers shall be exercised by the board of Directors.

The accounting firm appointed by the Company shall hold office from the conclusion of the annual general meeting of shareholder until the conclusion of the next annual general meeting of shareholders.

If there is a vacancy in the office of accounting firm, the board of Directors may before the convening of the shareholders' general meeting appoint a firm of accountants to fill the vacancy, provided that if there is another firm of accountants acting for the Company during the vacancy, that firm of accountants may continue to act.

The shareholders in general meeting may by ordinary resolution remove an accounting firm before the expiry of its term of office, notwithstanding the stipulations in the contract between the Company and the firm, but without prejudice to the firm's right to claim, if any, for damages in respect of such removal.

The remuneration of an accounting firm or the manner in which such remuneration is determined shall be decided by the shareholders in general meeting. The remuneration of an accounting firm appointed by the board of Directors shall be determined by the board of directors.

The Company's appointment of, removal of and non-reappointment of an accounting firm shall be resolved by the shareholders in general meeting. The resolution of shareholders' general meeting shall be filed with the securities regulatory authorities of the State Council.

Prior to the removal or the non-renewal of the appointment of the accounting firm, notice of such removal or non-renewal shall be given to the accounting firm and such firm shall have the right to make representation to the shareholders' general meeting. Where the accounting firm resigns its post, it shall make clear to the shareholders' general meeting whether there is any impropriety on the part of the Company.

An accounting firm may resign its office by depositing at the Company's domicile a resignation notice which shall become effective on the date of such deposit or on such later date as may be stipulated in such notice and such notice shall include the following:

- (i) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the shareholders or creditors of the Company; and
- (ii) a statement of any such circumstances.

Where a notice is deposited under the preceding subparagraph, the Company shall within 14 days send a copy of the notice to the relevant governing authority. If the notice

contains a statement under the above (ii), a copy of such statement shall be placed at the Company's registered office for shareholders' inspection. The Company should also send a copy of such statement by prepaid mail to every holder of Overseas-Listed Foreign-Invested Shares at the address registered in the register of shareholders.

Where the accounting firm's notice of resignation contains a statement of any circumstance which should be brought to the notice of the shareholders or creditors of the Company, it may require the board of Directors to convene a shareholders' extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

(c) *Rights of the accounting firm*

The accounting firm appointed by the Company shall have the following rights:

- (i) to inspect at any times the books, records and vouchers of the Company, and to require the Directors, general manager, deputy general managers and other senior officers of the Company to provide any relevant information and explanation;
- (ii) to require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanation as are necessary to enable it to discharge its duties;
- (iii) to attend shareholders' general meetings and to receive all notices of, and other communications relating to, such meetings which a shareholder of the Company is entitled to receive, and to speak at any shareholders' general meeting on any matter concerning its role as the accountants of the Company.

(8) Notice of meeting and business to be conducted thereat

The shareholders' general meeting is the organ of authority of the Company and shall exercise its functions and powers in accordance with law.

The Company shall not enter into any contract with any person other than a Director, supervisor, general manager, deputy general manager or a member of the senior management whereby such person is entrusted with the management of the whole or a material part of any business of the Company without the prior approval of shareholders in general meeting.

Shareholders' general meetings are divided into annual general meetings and extraordinary general meetings. Under any of the following circumstances, the board of Directors shall convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

- (i) when the number of Directors is less than the number provided for in the PRC Company Law or less than two thirds of the number prescribed in the Articles of Association;

- (ii) when the accumulated losses of the Company amount to one third of its issued share capital;
- (iii) when shareholders holding 10% or more of the Company's issued and outstanding shares carrying voting rights request in writing the convening of an extraordinary general meeting; and
- (iv) when the board of Directors considers it necessary or upon the request of the supervisory committee.

To convene a general meeting, the Company shall give written notices 45 days before the date of the meeting, informing all registered shareholders of the matters proposed to be considered at the meeting and the date and place of the meeting. Shareholders who are attending the meeting shall return the written replies of attendance to the Company to be received by the Company 20 days before the date of the meeting.

When the Company is to convene an annual general meeting, shareholders holding five per cent. or more of shares carrying voting rights shall have the right to put forward new proposals in writing to the Company. The Company shall include in the agenda the matters which are within the scope of responsibilities of the general meeting.

The Company shall calculate, according to the written replies received 20 days before the date of the meeting, the number of shares carry voting rights that the shareholders attending the meeting represent. The Company can convene a shareholders' general meeting if the number of shares carrying voting rights represented by shareholders intending to attend attain more than one half of the total number of shares carrying voting rights. If not, the Company shall make an announcement, within 5 days, once again notifying the shareholders of the matters proposed to be considered and the date and place of the meeting. Once an announcement has been so made, the Company may convene the general meeting.

An extraordinary general meeting may not decide on matters not specified in the notice.

A notice of meeting of shareholders shall:

- (i) be in writing;
- (ii) specify the place, the day and the time of the meeting;
- (iii) state the matters to be discussed at the meeting;
- (iv) provide such information and explanation as are necessary for the shareholders to exercise an informed judgement on the proposals before them. Without limiting the generality of the foregoing, where a proposal is made to amalgamate the Company with another company, to repurchase shares of the Company, to reorganise the share capital or to restructure the Company in any other way, the terms of the proposed transaction must be provided in detail together with copies of the proposed agreement, if any, and the reasons for and consequences of such proposal must be properly explained;

- (v) contain a disclosure of the nature and extent, if any, of material interests of any Director, supervisor, general manager, deputy general manager or officer in the transaction proposed and the effect of the proposed transaction on them in their capacity as shareholders in so far as it is different from the effect on the interests of other shareholders of the same class;
- (vi) contain the text of any special resolution proposed to be passed at the meeting;
- (vii) contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy need not be a shareholder; and
- (viii) specify the time and place for lodging proxy forms for the relevant meeting.

For the H share shareholders, notices of shareholders' general meetings shall be served on the shareholders (whether or not they are entitled to vote at the meeting) by personal delivery or prepaid mail to their addresses registered in the register of shareholders. For the holders of Domestic-Invested Shares, notices of shareholders' general meetings may also be given by way of public announcement.

The public announcement referred to in the preceding paragraph shall be published in one or more newspapers designated by the securities regulatory authority of the State Council within the interval between 45 to 50 days prior to the date of the meeting. Upon the publication of the announcement, all holders of Domestic-Invested Shares shall be deemed to have received notice of the relevant shareholders' meeting.

The accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate the proceedings at that meeting.

Shareholders requisitioning an extraordinary general meeting of shareholders or class meeting shall abide by the following procedures:

- (i) Two or more shareholders holding in aggregate 10% or more of the shares carrying the right to vote at the meeting sought to be held shall sign a written requisition in one or more counterparts in the same form and contents, requiring the board of directors to convene a shareholders' extraordinary general meeting or a class meeting thereof and stating the matters to be considered at the meeting. The board of Directors shall as soon as possible after receipt of the requisition proceed to convene a shareholders' extraordinary general meeting or a class meeting thereof.

The amount of shareholdings of the requisitioning shareholders referred to in the preceding paragraph shall be calculated as at the date of the deposit of the requisition.

- (ii) If the board of Directors fails to issue a notice of such a meeting within 30 days from the date of receipt of the requisition, the requisitioning shareholders may themselves convene such a meeting within 4 months of the receipt of the requisition by the board of Directors. In so convening a meeting, the requisitioning shareholders should adopt a procedure as similar as possible as that of shareholders' general meetings to be convened by the board of Directors.

The matters which require the sanction of an ordinary resolution at a shareholders' general meeting shall include:

- (i) the approval of work reports of the board of Directors and the supervisory committee;
- (ii) the approval of plans formulated by the board of Directors for the distribution of profits and for making up losses;
- (iii) the removal of the members of the board of Directors and members of the supervisory committee, their remuneration and method of payment;
- (iv) the approval of the Company's budget and final accounts, balance sheets and profit and loss accounts and other financial reports; and
- (v) save as required by the laws and regulations of the PRC or by the Articles of Association, all other matters other than those required to be adopted by special resolution.

The matters which require the sanction of a special resolution at a shareholders' general meeting include:

- (i) the increase or reduction of share capital and the issue of shares of any class or warrants and other similar securities;
- (ii) the issue of debentures of the Company;
- (iii) the demerger, merger, termination and liquidation of the Company;
- (iv) amendments to the Articles of Association; and
- (v) any other matters considered by the shareholders' general meeting, resolved by way of an ordinary resolution, to be of a nature which may have a material impact on the Company and should be adopted by a special resolution.

(9) Transfer of shares

Unless otherwise provided in any laws or regulations, shares in the capital of the Company shall be freely transferable and shall not be subject to any lien.

All fully paid-up H Shares can be freely transferred in accordance with the Articles of Association, provided, however, that the board of Directors may refuse to recognize any instrument of transfer without giving any reason, unless the following conditions are satisfied:

- (i) a fee on each instrument of transfer (as designated by the Stock Exchange or such other fee as requested by the board of Directors) has been paid to the Company for the registration of any transfer instrument or any other documents which is related to or will affect the ownership of or the change of the ownership of the shares;
- (ii) the instrument of transfer only involves H Shares;
- (iii) the stamp duty chargeable on the instrument of transfer has been paid;
- (iv) the relevant share certificates and, upon the reasonable request of the board of directors, any evidence in relation to the right of the transferor to transfer the shares have been submitted;
- (v) if it is intended to transfer the shares to joint owners, the maximum number of joint owners shall not exceed 4;
- (vi) the Company does not have any lien on the relevant shares; and
- (vii) the instrument of transfer is in standard form designated by the Stock Exchange.

If the Company refuses to register a transfer of shares, the Company shall, within 2 months following the date of the formal application for the transfer, provide the transferor and the transferee with a written notice of refusal to register such transfer.

(10) Power of the Company to purchase its own shares

The Company may, with the approval in accordance with the procedures provided in the Articles of Association and subject to the approval of the relevant governing authorities of the State, repurchase its issued shares in the following circumstances:

- (i) cancellation of its shares for the purpose of reducing its share capital;
- (ii) merging with another company which holds shares in the Company; or
- (iii) other circumstances permitted by laws and administrative regulations.

The Company may, upon the approval of the relevant governing authorities of the State, repurchase its shares in one of the following ways:

- (i) making a pro rata general offer of repurchase to all its shareholders;
- (ii) repurchasing shares through public dealing on a stock exchange; or
- (iii) repurchasing pursuant to an off-market agreement outside a stock exchange.

The Company may, with the prior sanction of shareholders obtained in accordance with the Articles of Association, repurchase its shares pursuant to an off-market contract but the Company may rescind or vary such contract or waive any or part of its rights under a contract so entered into by the Company with the prior approval of shareholders obtained in the same manner. A contract to repurchase shares as mentioned above includes but is not limited to an agreement to become obliged to repurchase or acquire rights to repurchase shares of the Company.

The Company shall not assign a contract to repurchase its shares or any of its rights thereunder.

Unless the Company is in the course of liquidation, it shall comply with the following provisions in relation to the repurchase of its issued shares:

- (i) where the Company repurchases its shares at par value, payment shall be made out of the book surplus distributable profits of the Company and/or out of the proceeds from any issue of new shares made for the purpose of the repurchase;
- (ii) where the Company repurchases its shares at a premium to the par value, payment up to their par value may be made out of the book surplus distributable profits of the Company and/or the proceeds from any issue of new shares made for the purpose of the repurchase. Payment of the portion in excess of the par value shall be effected as follows:
 - (aa) if the shares being repurchased were issued at par value, payment shall be made out of the book surplus distributable profits of the Company; or
 - (bb) if the shares being repurchased were issued at a premium to the par value, payment shall be made out of the book surplus distributable profits of the Company and/or the proceeds from any issue of new shares made for the purpose of the repurchase, provided that the amount paid out of such proceeds shall neither exceed the aggregate of the premiums received by the Company on the issue of the shares repurchased nor the current amount of the capital reserve fund account of the Company (including the premiums on the new issues) at the time of the repurchase;
- (iii) payment by the Company for the following purposes shall be made out of the Company's distributable profits:
 - (aa) acquisition of rights to repurchase shares in the Company;
 - (bb) variation of any contract to repurchase shares in the Company; and
 - (cc) release of any of the Company's obligations under a contract to repurchase shares in the Company;

- (iv) after the Company's registered capital has been reduced by the aggregate par value of the cancelled shares in accordance with the relevant regulations, the amount deducted from the distributable profits for paying up the par value portion of the repurchased shares shall be transferred to the Company's capital reserve fund account.

(11) Power of any subsidiary of the Company to own shares in its parent company

The Articles of Association contains no restrictions preventing any subsidiary of the Company from holding shares in its parent company.

(12) Dividends and other methods of distribution

The Company may distribute dividends by way of cash or bonus shares.

Dividends or other payments declared by the Company to be payable to holders of Domestic-Invested Shares shall be declared and calculated in Renminbi, and paid in Renminbi; and those payable to holders of Foreign-Invested Shares shall be declared and calculated in Renminbi, and paid in the local currency at the place where such Foreign-Invested Shares are listed (if there is more than one place of listing, then the principal place of listing as determined by the board of directors).

Foreign currency required by the Company for payment of dividends or other sum to holders of Foreign-Invested Shares shall be handled in accordance with the relevant foreign exchange control regulations of the State.

The Company shall appoint on behalf of holders of Overseas-Listed Foreign-Invested Shares receiving agents to receive on behalf of such shareholders dividends and other monies payable by the Company in respect of their shares.

The receiving agents appointed by the Company shall meet the requirements of the laws of the place of listing or relevant rules of the securities exchanges.

The receiving agent appointed on behalf of holders of H Shares shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

(13) Proxies

Any shareholder entitled to attend and vote at a shareholders' general meeting shall be entitled to appoint one or more persons (whether or not a shareholder) as his proxy to attend and vote on his behalf. A proxy so appointed shall be entitled to exercise the following rights in accordance with the authorization from that shareholder:

- (i) the shareholder's right to speak at the meeting;
- (ii) the right to demand, whether on his own or together with others, a poll; and

- (iii) the right to vote by hand or on a poll, but a proxy of a shareholder who has appointed more than one proxy may only vote on a poll.

Where that shareholder is a recognized clearing house within the meaning of the Securities and Futures (Clearing Houses) Ordinance (Cap.420 of the Law of Hong Kong), it may authorize such person or persons as it thinks fit to act as its representative (representatives) at any shareholders' general meeting or any meeting of any class of shareholders provided that, if more than one person is so authorized, the authorization must specify the number and class of shares in respect of which such person is so authorized. The person so authorized will be entitled to exercise the same power on behalf of the recognized clearing house as that clearing house (or its nominees) could exercise if it were an individual shareholder of the Company.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney duly authorised in writing, or if the appointor is a legal person either under seal or under the hand of a director or attorney duly authorised. The instrument appointing a voting proxy shall be deposited at the Company's domicile or at such other place as is specified in the notice convening the meeting not less than 24 hours prior to the time for holding the meeting at which the proxy proposes to vote or the time specified for the passing of the resolution. If such instrument is signed by another person under a power of attorney or other authorization documents given by the appointer, such power of attorney or other authorization documents shall be notarized. The notarized power of attorney or other authorization documents shall, together with the instrument appointing the voting proxy, be deposited at the Company's domicile or at such other place as is specified in the notice convening the meeting.

If the appointer is a legal person, its legal representative or any person authorized by resolutions of its board of Directors or other governing body shall attend the shareholders' meeting as the appointer's representative.

Any form issued to a shareholder by the board of Directors for the purpose of appointing a proxy shall be such as to enable the shareholder, according to his free will, to instruct his proxy to vote in favour of or against the motions proposed and in respect of each individual matter to be voted on at the meeting. Such a form shall contain a statement that in the absence of instructions from the appointer, the proxy may vote as he thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointor or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer as aforesaid shall have been received by the Company before the commencement of the meeting at which the proxy is used.

(14) Calls on shares and forfeiture of shares

There are no provisions in the Articles of Association relating to the making of calls on shares or for the forfeiture of shares.

(15) Inspection of register of shareholders and other rights of shareholders

The Company shall keep a register of shareholders and enter therein the following particulars:

- (i) the name (title), address (residence) and occupation or nature of each shareholder;
- (ii) the class and number of shares held by each shareholder;
- (iii) the amount paid up or payable on the shares held by each shareholder;
- (iv) the share certificate numbers of the shares held by each shareholder;
- (v) the date on which each person was entered in the register as a shareholder; and
- (vi) the date on which any shareholder ceases to be a shareholder.

Unless there is evidence to the contrary, the register of shareholders is sufficient evidence of shareholdings in the Company.

The Company may, in accordance with the understanding or agreements between the securities regulatory authority of the State Council and the overseas securities regulatory organizations, maintain the register of shareholders of Overseas-Listed Foreign-Invested Shares overseas and appoint overseas agent(s) to manage such share register. The original share register for holders of H Shares shall be maintained in Hong Kong.

Duplicates of the share register for holders of Overseas-Listed Foreign-Invested Shares shall be maintained at the Company's residence. The appointed overseas agent(s) shall ensure the consistency between the original and the duplicate of the share register.

If there is any inconsistency between the original and the duplicate share register for holders of Overseas-Listed Foreign-Invested Shares, the original shall prevail.

The Company shall keep a complete register of shareholders. The register of shareholders shall comprise the following parts:

- (i) register(s) of shareholders other than those specified in items (ii) and (iii) below kept at the domicile of the Company;
- (ii) register(s) of holders of the Company's overseas-listed foreign-investment shares kept at the place where the stock exchange on which such shares are listed is located; and
- (iii) register(s) of shareholders kept at other places as the board of directors thinks necessary for the purpose of listing.

Different parts of the register of shareholders shall not overlap. No transfer of shares registered in any part of the register shall, during the continuance of that registration, be registered in any other part of the register.

The alteration or rectification of any part of the register of shareholders shall be carried out in accordance with the laws of the place where such part of the register is maintained.

No changes which are required by reason of a transfer of shares may be made to the register of shareholders within 30 days prior to the date of a shareholders' general meeting or 5 days prior to the record date for the Company's distribution of dividends.

When the Company decides to convene a shareholders' general meeting, distribute dividends, liquidate or carry out other activities which require the determination of shareholdings, the board of Directors shall fix a record date for the purpose of determining the shareholding. A person who is registered in the register as shareholders of the Company at the end of the record date shall be a shareholder of the Company.

Any person who objects to what is contained in the register of shareholders and wishes to register his name on, or delete his name from, the register may apply to the court which jurisdiction to amend the register.

The right of the shareholders to information includes, but without limitation, the following:

- (i) the right to a copy of the Articles of Association after payment of costs;
- (ii) the right to inspect and copy at reasonable charges;
 - (aa) all parts of the register of shareholders;
 - (bb) particulars of Directors, supervisors, general manager, deputy general managers and officers as follows:
 - (aaa) his present name and any former names and any aliases;
 - (bbb) his principal residential address;
 - (ccc) his nationality;
 - (ddd) his primary and all other part time business occupations; and
 - (eee) his identification document and its number;
 - (cc) the state of the Company's share capital;

(dd) reports showing the number and par value of shares repurchased by the Company since the end of the last financial year, the aggregate amount paid by the Company for the shares repurchased and the maximum and minimum price in respect of each class of shares repurchase; and

(ee) minutes of shareholders' meetings.

(16) Quorum for shareholders meetings

The Company can convene a shareholders' meeting if the number of shares carrying voting rights represented by shareholders intending to attend attain one-half of the total number of shares carrying voting rights.

(17) Rights of minority shareholders in relation to fraud or oppression

In addition to the obligations imposed by laws and administrative regulations or the listing rules of the stock exchange on which shares of the Company are listed, a controlling shareholder, when exercising his rights as a shareholder, shall not exercise his voting rights to make a decision which is prejudicial to the interests of the shareholders generally or of some of the shareholders of the Company in respect of the following matters:

- (i) to relieve a Director or supervisor of his duty to act honestly in the best interests of the Company;
- (ii) to approve the expropriation by a Director or supervisor (for his own benefit or for the benefit of another person), in any guise, of the Company's assets, including (without limitation) opportunities beneficial to the Company;
- (iii) to approve the expropriation by a Director or supervisor (for his own benefit or for the benefit of another person) of the individual rights of other shareholders, including (without limitation) rights to distributions and voting rights, but not including a restructuring of the Company submitted to and approved by shareholders' general meeting in accordance with the Articles of Association.

For the purposes of the preceding paragraph, a "controlling shareholder" means a person who satisfies any one of the following conditions:

- (i) he alone or acting in concert with others has the power to elect more than half of the Directors;
- (ii) he alone or acting in concert with others has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;
- (iii) he alone or acting in concert with others holds 30% or more of the issued shares of the Company; or

- (iv) he alone or acting in concert with others in any other manner controls the Company in fact.

(18) Procedure on liquidation

The Company shall be dissolved and liquidated in accordance with law upon occurrence of any of the following events:

- (i) a resolution for dissolution is passed by a shareholders' general meeting;
- (ii) dissolution is necessary due to a merger or division of the Company;
- (iii) the Company is legally declared insolvent due to its failure to repay debts due; or
- (iv) the Company is ordered to close down because of its violation of laws or administrative regulations.

A liquidation group shall be set up within 15 days of the Company being dissolved pursuant to the above (i), and the composition of the liquidation group of the Company shall be determined by an ordinary resolution of shareholders in general meeting. If a liquidation group to carry out liquidation procedure is not set up within the specified time limit, the creditors may apply to the People's Court to have it designate relevant persons to form a liquidation group in order to carry out liquidation procedure.

Where the Company is dissolved under the above (iii), the People's Court shall in accordance with provisions of relevant laws organize the shareholders, relevant organizations and relevant professional personnel to establish a liquidation group to carry out liquidation procedure.

Where the Company is dissolved under the above (iv), the relevant governing authorities shall organize the shareholders, relevant organizations and professionals personnel to establish a liquidation group to carry out the liquidation procedure.

Where the board of Directors proposes to liquidate the Company due to causes other than where the Company has declared that it is insolvent, the Board shall include a statement in its notice convening a shareholders' general meeting to consider the proposal to the effect that, after making full inquiry into the affairs of the Company, the board of Directors is of the opinion that the Company will be able to pay all of its debts in full within 12 months from the commencement of the liquidation.

Upon the passing of the resolution by the shareholders in general meeting for the liquidation of the Company, all functions and powers of the board of Directors shall cease.

The liquidation group shall act in accordance with the instructions of the shareholders' general meeting to make a report at least once every year to the shareholders' general meeting on the group's receipts and payments, the business of the Company and the progress of the liquidation, and to present a final report to the shareholders general meeting on completion of the liquidation.

The liquidation group shall within 10 days of its establishment send a notice to creditors, and within 60 days of its establishment make a public announcement in a newspaper at least three times. A creditor shall within 30 days of receiving the notice, or for creditors who do not receive the notice, within 90 days of the date of the first public announcement, report its creditors' rights to the liquidation group.

When reporting creditors' rights, the creditor shall provide an explanation of matters relevant to the creditor's rights and shall provide materials as evidence. The liquidation group shall carry out registration of creditors' rights so reported.

During the liquidation period, the liquidation group shall exercise the following functions and powers:

- (i) to sort out the Company's assets and prepare a balance sheet and an inventory of assets respectively;
- (ii) to notify all creditors by notice or public announcements;
- (iii) to dispose of and liquidate any relevant unfinished business matters of the Company;
- (iv) to pay all outstanding taxes;
- (v) to settle claims and debts;
- (vi) to deal with assets remaining after the Company's debts having been paid in full; and
- (vii) to represent the Company in any civil proceedings.

The liquidation committee shall thoroughly examine the assets of the Company, and prepare an assets list. Upon completion, the liquidation committee shall draw up a proposal for liquidation and submit the same to the shareholders' meeting and the relevant authority in charge for confirmation.

The Company's assets shall be paid in the following order:

- (i) liquidation expenses;
- (ii) outstanding wages and social insurance premiums of staff and workers;
- (iii) outstanding taxes, tax surcharges and contributions to funds payable; and

(iv) bank loans, Company bonds, and other debts of the Company.

The assets of the Company remaining after full repayment pursuant to the preceding paragraph shall be distributed to its shareholders in proportion to the shareholdings of its shareholders.

During liquidation, the Company shall not engage in new business activities.

If the Company is liquidated by reason of dissolution and the liquidation committee, having thoroughly examined the Company's assets and having prepared a balance sheet and assets list, discovers that the Company's assets are insufficient to pay its debts in full, it shall immediately apply to the People's Court for a declaration of insolvency.

After the People's Court has declared the Company insolvent, the Company's liquidation committee shall turn over any matters regarding the liquidation to the People's Court.

Following the completion of liquidation, the liquidation group shall present a report on liquidation and prepare a statement of the receipts and payments during the period of liquidation and financial books and records which shall be audited by PRC registered accountants and submitted to the shareholders' general meeting or the relevant governing authority for confirmation.

The liquidation group shall also within 30 days after such confirmation, submit the documents referred to in the preceding paragraph to the company registration authority and apply for cancellation of registration of the Company, and publish an announcement relating to the termination of the Company.

(19) Other provisions material to the Company or its shareholders

(a) *General provisions*

The Company is a joint stock limited company of perpetual existence.

The major scope of operation of the Company, is set out in its business licence and described in Article 14 of the Articles of Association.

The Company may invest in other companies with limited liability or joint stock limited companies and shall be liable to the companies in which it invests to the extent of its capital contribution.

After obtaining approval from the government department authorised by the State Council for the examination and approval of companies, the Company may, depending on the needs of its management and business, operate by acting as a holding company in accordance with sub-article 2 of Article 12 of the PRC Company Law.

The Articles of Association constitute a legal document regulating the relationship between the Company and each of its shareholders and among the shareholders interests, actionable by a shareholder against the Company and vice versa and by shareholders against each other in respect of rights and obligations concerning the affairs of the Company arising out of the Articles of Association. The shareholders may also bring actions against the Directors, supervisors, managers and other officers of the Company. For the purposes of the Articles of Association, actions include court proceedings and arbitration proceedings.

(b) *Shares and transfers*

There must be ordinary shares in the Company at all times. The Company may, according to its needs and subject to obtaining approval by the company approval authorities authorized by the State Council, create other classes of shares.

Shares issued by the Company to domestic investors for subscription in Renminbi are referred to as “Domestic Shares”. Shares issued by the Company to foreign investors for subscription in foreign currencies are referred to as “Foreign-Invested Shares”. Foreign-Invested Shares which are listed overseas are called herein “Overseas-Listed Foreign-Invested Shares”.

The foreign currencies referred to in the preceding paragraph mean the legal currencies (apart from Renminbi) of other countries or regions which are recognized by the foreign currency control authority of the State and can be used to pay the Company for the share price.

Foreign investors referred to in the preceding paragraph mean those investors of foreign countries and regions of Hong Kong, Macau and Taiwan who subscribe for shares issued by the Company; domestic investors referred to in the preceding paragraph mean those investors within the territory of China (excluding investors of the regions referred to in the preceding sentence) who subscribe for shares issued by the Company.

Domestic Shares issued by the Company shall be called “A Shares”. Overseas Listed Foreign-Invested Shares issued by the Company shall be called “H Shares”. H Shares are shares which have been admitted for listing on the Stock Exchange, the par value of which is denominated in Renminbi and which are subscribed for and traded in Hong Kong dollars.

In accordance with the approval of the company approval authorities authorized by the State Council, the Company may issue a total of 339,557,000 ordinary shares, of which (a) 227,452,000 A Shares were issued on the establishment of the Company and were all subscribed for by the promoter of the Company and (b) up to 112,125,000 H Shares (which figure includes the over-allotment portion, 14,625,000 H Shares) will be offered for the first time for subscription by foreign investors.

If the over-allotment option is fully exercised, the ordinary shares that the Company will issue in its first increase of capital after its establishment will be 112,125,000 H Shares; if the over-allotment option is not exercised, the ordinary shares that the Company will issue in its first increase of capital after its establishment will be 97,500,000 H Shares.

After an increase of capital by issuing shares as referred to in the preceding paragraph, the share capital structure of the Company will be (a) if the over-allotment option is fully exercised, 339,577,000 ordinary shares, of which 227,452,000 A Shares are held by the promoter of the Company and 112,125,000 H Shares are held by the holders of H Shares, representing 67% and 33% respectively, of the total number of ordinary shares that can be issued by the Company; (b) if the over-allotment option is not exercised, 324,952,000 ordinary shares, of which 227,452,000 A Shares are held by the promoter of the Company and 97,500,000 H Shares are held by the holders of H Shares representing 70% and 30%, respectively, of the total number of ordinary shares that can be issued by the Company.

The Company's registered capital is Renminbi 22,745,200. If the over-allotment option is exercised in accordance with Articles 21 and 22 of the Articles of Association, the Company's registered capital will be adjusted up to Renminbi 33,957,700. At that time, the Company will ascertain the actual amount by referring to a capital verification report prepared by certified accountants, and will accordingly register the increased capital with the SAIC. At the same time, the Company will report such increase to the relevant departments for filing. The Company may, based on its requirements for operation and development and in accordance with the relevant provisions of the Articles of Association, approve the increase of capital.

The Company may increase its capital in the following ways:

- (i) offering new shares to non-specially-designated investors for subscription;
- (ii) placing new shares to its existing shareholders;
- (iii) allotting bonus shares to its existing shareholders; or
- (iv) any other ways permitted by laws and administrative regulations.

The Company's increase of capital by issuing new shares shall, after being approved in accordance with the provisions of the Articles of Association, must be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations of the State.

The Company may reduce its registered capital in accordance with the provisions of the Articles of Association.

When the Company reduces its registered capital, it shall prepare a balance sheet and an inventory of assets.

The Company shall notify its creditors within 10 days of the date of the resolution for reduction of its registered capital, and shall make a public announcement in a newspaper at least 3 times within 30 days following the date of such resolution. A creditor has the right, within 30 days of receiving the notice or, in the case of such notice not being received, within 90 days of the date of the first public announcement, to require the Company to repay its debts or to provide a corresponding guarantee for such debts.

The Company's registered capital after reduction shall not be less than the statutory minimum amount.

(c) *Shareholders*

A shareholder of the Company is a person who lawfully holds shares and has his name recorded on the register of shareholders. A shareholder enjoys rights, and is subject to obligations, according to the class and number of shares he holds. Holders of the same class of shares enjoy the same rights and subject to the same obligations. The register of shareholders shall be sufficient evidence, unless the contrary is shown, of shareholdings in the Company.

The ordinary shareholders of the Company shall enjoy the following rights:

- (i) the right to dividends and other distributions in proportion to the number of shares held by him;
- (ii) the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- (iii) the right to supervise the Company's business operations, and the right to present proposals and inquiries;
- (iv) the right to transfer shares in accordance with the laws, administrative regulations and the Articles of Association;
- (v) the right to obtain relevant information in accordance with the provisions of the Articles of Association;
- (vi) in the event of the termination or liquidation of the Company, the right to participate in the distribution of surplus assets of the Company according to the number of shares held by him; and
- (vii) other rights conferred by laws, administrative regulations and the Articles of Association.

The ordinary shareholders of the Company shall have the following obligations:

- (i) the obligation to abide by the Articles of Association;

- (ii) the obligation to pay subscription monies in accordance with the number of shares subscribed and the method of subscription; and
- (iii) other obligations imposed by laws, administrative regulations and the Articles of Association.

A shareholder is not be liable to make any further contribution to the share capital other than the terms agreed.

Share certificates of the Company shall be in registered form.

Share certificates of the Company shall be signed by the Chairman of the Company's board of Directors. Where the stock exchanges on which the Company's shares are listed require the share certificates to be signed by other senior officers of the Company, the share certificates shall also be signed by such senior officers. The share certificates shall take effect after being affixed with the Company's seal or a machine-imprinted seal of the Company. The share certificates shall only be affixed with the Company's seal under the authorization of the board of Directors. The signatures of the Chairman of the board of directors or other senior officers of the Company on the share certificates may be printed in mechanical form.

Any person who is a registered shareholder or who requests to have his name (title) entered into the register of shareholders may, if his share certificate (the "original certificate") in respect of shares in the Company is lost, apply to the Company for a replacement new share certificate in respect of such shares (the "Relevant Shares").

If a shareholder of Domestic Shares loses his share certificate and applies for a replacement new share certificate, it shall be dealt with in accordance with Article 150 of the Company Law.

If a shareholder of Overseas-Listed Foreign-Invested Shares loses his share certificate and applies for a replacement new share certificate, it may be dealt with in accordance with the laws, the rules of the stock exchange and other relevant regulations of the place where the original register of holders of Overseas-Listed Foreign-Invested Shares is maintained.

If a shareholder of H Shares loses his share certificate and applies for a replacement new share certificate, the issue of such certificate shall comply with the following requirements:

- (i) the applicant shall submit an application to the Company in the form prescribed by the Company accompanied by a notarial certificate or a statutory declaration stating the grounds upon which the application is made and the circumstances and evidence of the loss of the original certificate and declaring that no other person is entitled to be registered as a shareholder in respect of the Relevant Shares;

- (ii) before the Company decides to issue the replacement new share certificate, no statement made by any person other than the applicant declaring that he shall be registered as a shareholder in respect of the Relevant Shares has been received;
- (iii) the Company shall, if it decides to issue a replacement new share certificate to the applicant, make an announcement of its decision at least once every 30 days for a period of 90 days in such newspapers as may be designated by the board of directors;
- (iv) the Company shall have, prior to publication of its decision to issue a replacement new share certificate, delivered to the stock exchange on which its shares are listed a copy of the announcement to be published. The Company may publish the announcement upon receiving a confirmation from such stock exchange that the announcement has been exhibited in the premises of the stock exchange. The announcement shall be exhibited in the premises of the stock exchange for a period of 90 days.

In the case of an application to issue a replacement new certificate being made without the consent of the registered holder of the Relevant Shares, the Company shall deliver by mail to such registered shareholder a copy of the announcement to be published;

- (v) if, by the expiration of the 90-day period referred to in (iii) and (iv) above, the Company shall not have received from any person notice of any disagreement to such application, the Company may issue a replacement new share certificate to the applicant accordingly;
 - (vi) where the Company issues a replacement new share certificate under the Articles of Association, it shall forthwith cancel the original share certificate and enter the cancellation and replacement issue in the register of shareholders accordingly; and
 - (vii) all expenses relating to the cancellation of an original share certificate and the issue of a replacement new share certificate by the Company shall be borne by the applicant. The Company may refuse to take any action until reasonable security is provided by the applicant for such expenses.
- (d) *Directors, Supervisors, general manager, deputy general managers and other officers of the Company*

The board of Directors shall be accountable to the general meeting of the shareholders, and shall have the power to:

- (i) convene general meetings and report on its work to the shareholders;
- (ii) implement the resolutions of general meetings;

- (iii) decide on the Company's business plans and investment plans;
- (iv) formulate the Company's proposed annual financial budget and final accounts;
- (v) formulate the Company's profit distribution plan and plan for making up for losses;
- (vi) formulate proposals for the increase or reduction of the Company's registered capital and the issue of corporate bonds;
- (vii) prepare plans for the merger, demerger or dissolution of the Company;
- (viii) decide on the establishment of the Company's internal management structure;
- (ix) appoint or dismiss the Company's general manager, and pursuant to the manager's nominations to appoint or dismiss the deputy general manager and financial officers of the Company and to decide on their remuneration;
- (x) formulate the Company's basic management system;
- (xi) formulate plans for the amendment of the Company's Articles of Association;
- (xii) exercise other functions and powers conferred at general meetings and by the Articles of Association.

Resolutions relating to the above, with the exception of items (vi), (vii) and (xi) above which shall require the consent of more than two thirds of the Directors, shall require the consent of more than half of the Directors.

Meetings of the board of Directors shall be held at least twice in every year and shall be convened by the Chairman of the board of Directors. A quorum will be formed by more than half of the Directors attending in person.

If a Director is unable to attend a Board meeting, he may appoint another Director by a written power of attorney to attend on his behalf. Such a power of attorney shall specify the scope of authorisation.

Directors attending Board meetings shall exercise their powers as Directors within their scope of authorisation. If a Director fails to attend a Board meeting and does not appoint an attorney to attend, the Director is deemed to have relinquished his right to vote at that meeting.

Each Director shall have one vote. Resolutions of the board of Directors must be passed by more than half of all the Directors. Where the number of votes cast for and against a resolution are equal, the Chairman shall have the right to cast an additional vote.

(e) *Secretary of the Board of Directors*

The Company shall have a secretary of the board of Directors who shall be a senior officer of the Company.

The secretary of the board of Directors shall be a natural person who has the requisite professional knowledge and experience, and shall be appointed by the board of Directors. His primary responsibilities are to ensure that:

- (i) the Company has complete organizational documents and records;
- (ii) the Company prepares and submits all reports and documents required by the competent authorities entitled thereto in accordance with law; and
- (iii) the Company's registers of shareholders are properly maintained, and that persons entitled to the Company's records and documents are furnished with such records and documents without delay.

A Director or other senior officer of the Company may hold the office of the secretary of the board of Directors concurrently. The accountant(s) of the certified public accountants appointed by the Company shall not act as the secretary of the board of Directors.

Provided that where the office of the secretary of the board of Directors is held concurrently by a Director, and an act is required to be done by a Director and the secretary separately, the person who holds the office of Director and secretary may not perform the act in dual capacity.

(f) *Supervisory Committee*

The Company shall have a supervisory committee.

The supervisory committee shall be composed of 5 members, one of whom shall be the chairman of the supervisory committee.

The term of office of supervisors shall be 3 years, renewable upon re-election.

The chairman of the supervisory committee shall be elected and removed with the consent of two-thirds or more of all the supervisors. The term of office of the chairman shall be 3 years, renewable upon re-election.

The supervisory committee shall comprise of 1 representative of shareholders and 2 independent supervisors, who shall be elected and removed by the shareholders' general meeting and 1 representative of the employees of the Company who shall be elected and removed by the employees of the Company democratically.

The Directors, general manager, deputy general managers and financial officer of the Company shall not act concurrently as supervisors.

The supervisory committee shall be accountable to the shareholders' general meeting and exercise the following functions and powers in accordance with law:

- (i) to examine the Company's financial situation;
- (ii) to supervise the Directors, general manager, deputy general manager and other senior officers to see whether they act in contravention of the laws, administrative regulations and the Articles of Association in the performance of their duties;
- (iii) to demand rectification from a Director, general manager, deputy general manager or other senior officer when acts of such persons are detrimental to the interests of the Company;
- (iv) to check the financial information such as the financial report, business report and plans for profit distribution to be submitted by the board of Directors to the shareholders' general meeting and, should any queries arise, to appoint, in the name of the Company, public certified accountants and practising auditors to assist in such check;
- (v) to propose to convene a shareholders' extraordinary general meetings;
- (vi) to represent the Company in negotiation with or bring an action against a Director; and
- (vii) other functions and powers specified in the Articles of Association.

Supervisors shall be present at meetings of the board of Directors.

(g) *General Manager*

The Company shall have one general manager, who shall be appointed and dismissed by the board of Directors. The Company shall have a certain number of deputy general managers, who will assist the general manager in his work and who shall be appointed and dismissed by the board of Directors upon nomination by the general manager. A Director of the Company may act concurrently as the general manager or deputy general manager.

The general manager shall be accountable to the board of Directors and exercise the following functions and powers:

- (i) to be in charge of the Company's production, operation and management and to organize the implementation of the resolutions of the board of Directors;
- (ii) to organize the implementation of the Company's annual business plan and investment plan;

- (iii) to draft plans for the establishment of the Company's internal management structure;
 - (iv) to draft the Company's basic management system;
 - (v) to formulate the basic rules and regulations of the Company;
 - (vi) to propose the appointment or dismissal of the Company's deputy general managers and the financial controller;
 - (vii) to appoint and dismiss management personnel other than those required to be appointed or dismissed by the board of directors; and
 - (viii) other functions and powers conferred by the Articles of Association and the board of Directors.
- (h) *Settlement of Disputes*

The Company shall act according to the following principles to settle disputes:

- (i) Whenever any disputes or claims arising between: holders of the Overseas-Listed Foreign-Invested Shares and the Company; holders of the Overseas-Listed Foreign-Invested Shares and the Company's Directors, supervisors, general manager, deputy general manager or other senior officers; or holders of the Overseas-Listed Foreign-Invested Shares and holders of Domestic-Invested Shares, based on the Articles of Association or any rights or obligations conferred or imposed by the Company Law or any other laws and administrative regulations concerning the affairs of the Company, such disputes or claims shall be referred by the relevant parties to arbitration.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, shall abide by the arbitration, provided that such person is the Company or the Company's shareholder, Director, supervisor, general manager, deputy general manager or other senior officer.

Disputes in relation to the definition of shareholders and disputes in relation to the shareholders' register need not be resolved by arbitration.

- (ii) A claimant may elect arbitration at either the China International Economic and Trade Arbitration Commission in accordance with its Rules or the Hong Kong International Arbitration Centre in accordance with its Securities Arbitration Rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If a claimant elects arbitration at Hong Kong International Arbitration Centre, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules of the Hong Kong International Arbitration Centre.

- (iii) If any disputes or claims of rights are settled by way of arbitration in accordance with the above (i), the laws of the PRC shall apply, save as otherwise provided in laws and administrative regulations.
- (iv) The award of an arbitration body shall be final and conclusive and binding on all parties.

4. PRC LEGAL MATTERS

Fangda partners, the Company's legal adviser on PRC law, has sent to the Company a letter dated 22nd April, 2002 confirming that it has reviewed the summary of PRC company and securities laws and regulations as contained in this Appendix, the summary of PRC taxation laws as contained in Appendix III and the summary of PRC foreign exchange laws and regulations contained in Appendix IV and that, in its opinion, such summaries are correct summaries of relevant PRC laws and regulations. This letter is available for inspection as contained in Appendix VII headed "Documents Delivered to the Registrar of Companies and Available for Inspection".

Any person wishing to have detailed advice on PRC laws and the laws of jurisdiction is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

- (1) The Company was established in the PRC under the Company Law as a joint stock limited company on 20th September, 2001 by the Promoters. The registered office of the Company is at 4th Floor, 108 Gu Cui Road, Hangzhou City, PRC. The Company has established a place of business in Hong Kong at 1801-1807, Sun Hung Kai Center, No. 30 Harbour Road, Wanchai, Hong Kong and has registered to be an overseas company in Hong Kong under Part XI of the Companies Ordinance on 5th February, 2002. Such registration contains a notice of the appointment of Mr. Fork Siu Lun Tommy of Flat E1, 12th Floor, 989 King’s Road, Hong Kong as the process agent of the Company for the acceptance of services of process in Hong Kong.
- (2) At the time of its establishment, the Company’s registered capital was RMB22,745,200 divided into 22,745,200 Promoters’ Shares of RMB1.00 each. All these Domestic Shares held by the Promoters were held and paid up as follows:

Promoters	Number of Promoters’ shares held by each Promoter	Approximate percentage of shareholding of each Promoter in the registered capital of the Company
Chen Ping (陳平)	3,639,232	16.00%
Zhejiang Qware	3,411,780	15.00%
Beijing Guoheng	3,411,780	15.00%
Zhejiang Innovation	3,411,780	15.00%
Wu Zhong-hao (吳忠豪)	1,649,028	7.25%
Shi Chun-hua (施春華)	1,649,028	7.25%
Chen Guo-cai (陳國才)	1,023,534	4.50%
Liu Qiao-ping (劉巧萍)	1,023,534	4.50%
Bao Shu-xin (鮑曙新)	864,317	3.80%
Wang Jin-cheng (王金成)	750,591	3.30%
Wang Lei-bo (王雷波)	750,591	3.30%
Chen Chun (陳純)	409,413	1.80%
Huo Zhong-hui (霍忠會)	409,413	1.80%
Jin Lian-fu (金連甫)	341,179	1.50%
	<u>22,745,200</u>	<u>100.00%</u>

- (3) The establishment of the Company and the conversion of the Company into a public subscription company involved, among other matters, the following procedures and approvals:
- (a) On 30th June, 2001, a shareholders' meeting of Hangzhou Land was held at which, amongst others, the shareholders approved the proposal that:
 - (i) Hangzhou Land be wholly reorganized into the Company pursuant to the provisions of the Company Law, and the Company's total equity interest equals Hangzhou Land's total net assets as audited as of 30th June, 2001 were approximately RMB22.7 million; and
 - (ii) all the shareholders of Hangzhou Land be the Company's promoters, and all promoters will possess their relevant shares in the Company pursuant to their respective ratio of equity interest in Hangzhou Land.
 - (b) On 17th August, 2001, Arthur Andersen • Hua Qiang Certified Public Accountants issued a certified public accountant's audited report concerning the financial statements of Hangzhou Land and its subsidiaries covering the year ended 31st December, 1998, 1999, 2000 and ended as of 30th June, 2001.
 - (c) On 17th August, 2001, Arthur Andersen • Hua Qiang Certified Public Accountants issued a capital verification report concerning capital contribution of the Promoters of the Company.
 - (d) On 27th August, 2001, all shareholders of Hangzhou Land formally executed a promoters' agreement concerning the Company's incorporation by wholly reorganization.
 - (e) On 27th August, 2001, all the Company's Promoters jointly promulgated the draft of the Company's Articles of Association.
 - (f) On 10th September, 2001, as authorized by the People's Government of Zhejiang Province, the Enterprise Listing Working Committee of the People's Government of Zhejiang Province issued an approval concerning the Company's incorporation by wholly reorganization (Zhe Shang Shi 2001 No.64).
 - (g) On 11th September, 2001, the inaugural meeting of the Company was held by all the Company's Promoters.
 - (h) On 20th September, 2001, the Zhejiang Administration Bureau of Industry and Commerce issued the Business Licence of the Company (Registration No. 3300001008170) evidencing that the Company was incorporated as a joint stock limited company.
 - (i) On 4th January, 2002, CSRC issued an approval approving the issue and the listing of H Shares on the GEM and authorising the Company to apply for listing of the H Shares on GEM.

2. Changes in share capital

The following changes in the share capital of the Company have taken place within the two years preceding the date of this prospectus:

(a) *Registered capital increased to RMB 2,500,000 on 15th March, 2001*

On 15th March, 2001, the registered capital of the Company was increased by RMB2,000,000 by cash and the capitalization from tax refund reserves and retained profits of all the equity holders. Consequently, the registered capital of the Company as at 15th March, 2001 amounted to RMB 2,500,000 and the total net assets amounted to RMB5,638,952.86.

(b) *Registered capital increased to RMB4,545,400 on 19th April, 2001*

Pursuant to resolutions passed by the shareholders of the Company on 9th March, 2001 to permit new investors, Beijing Guoheng, Qware Science and Yu Qiang invested RMB2,045,400 into the registered capital of the Company and the registered capital was increased to RMB4,545,400 on 19th April, 2001 while the total net assets amounted to RMB23,209,621.57, details of which are shown as below:—

- (i) Beijing Guoheng invested RMB7,500,000, including the paid-up capital being RMB681,800 (the rest amount of RMB6,818,200 was entered into the capital surplus), and constituted 15% of the enlarged registered capital;
- (ii) Qware Science invested RMB5,000,000, including the paid-up capital being RMB681,800 (the rest amount of RMB4,318,200 was entered into the capital surplus), and constituted 15% of the enlarged registered capital; and
- (iii) Yu Qiang invested RMB5,000,000, including the paid-up capital being RMB681,800 (the rest amount of RMB4,318,200 was entered into the capital surplus), and constituted 15% of the enlarged registered capital.

On 27th June, 2001, Yu Qiang, He Xiao-xun and Qware Science transferred all their equity interests in Hangzhou Land to Zhejiang Qware, Liu Qiao-ping and Zhejiang Innovation, respectively.

(c) *Registered capital increased to RMB22,745,200 on 20th September, 2001*

On 20th September, 2001, due to capitalisation of the Company's total net assets valued at approximately RMB22.7 million (the whole capitalisation process as fully set out in subparagraph (3) of the section headed "Incorporation" above), the registered capital of the Company was increased to RMB22,745,200.

Save as aforesaid, there has been no alteration in the registered capital of the Company within the two years preceding the date of this prospectus.

3. Proceedings at the Company's general meetings

- (i) At a general meeting of the Company held on 11th September, 2001, the following resolutions, among other resolutions, were duly passed:
 - (a) that each of Chen Ping, Zhao Jian, Xue Shi-cheng, Chen Chun, Bao Shu-xin was appointed as an executive director of the Company and each of Cai Xiao-fu, Zhang De-xin and Wang Yue-hao was appointed as an independent non-executive director of the Company; and
 - (b) that each of Deng Ze-quan (being subsequently replaced) and Fu Liang-yuan be appointed as a supervisor of the Company.
- (ii) At an extraordinary general meeting of the Company held on 10 October 2001, the following resolutions, among other resolutions, were duly passed:
 - (a) that the proposal in relation to the conversion of the Company into a public subscription company, and the application to the CSRC and the Stock Exchange for the issuing of H Shares of not more than 30% of the registered capital of the Company and the listing thereof on the GEM be approved;
 - (b) that the amendment to the Articles of Association in accordance with the Mandatory Provisions and other relevant rules and regulations be approved;
 - (c) that the appointment of Li Yao-ting as supervisor (in substitution of Deng Ze-quan), Gu Yu-lin and Feng Pei-xian as independent supervisors of the Company be approved; and
 - (d) that the board of directors of the Company be authorised to proceed with the listing of H Shares of the Company on GEM, and to sign and execute all documents in relation thereto.
- (iii) At an extraordinary general meeting of the Company held on 15th April, 2002, the following resolutions, among other resolutions, were duly passed:
 - (a) the subdivision of Promoters' Shares from par value of RMB1 each to RMB0.1 each be approved;
 - (b) the amendment to the Articles of Association in accordance with the mandatory provisions, GEM Rules, other relevant rules and regulations and the requirement of relevant authorities be approved;
 - (c) that the amended Articles of Association be adopted;
 - (d) that the placing of 97,500,000 H Shares (subject to Over-allotment Option) in accordance with the terms and conditions as set out in this prospectus be conditionally approved;
 - (e) that the granting of Over-allotment Option to CPY International, on behalf of the Underwriters, exercisable by CPY International (on behalf of the Underwriters), pursuant to which CPY International may require the Company to allot and issue an additional 14,625,000 H Shares at the Placing Price be approved; and

- (f) that the rules of the Share Option Scheme be approved and adopted conditionally upon the GEM Listing Committee granting the listing of and permission to deal in the H Shares to be issued under the Placing and the Directors be 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.
- (iv) At an extraordinary general meeting of the Company held on 20th April, 2002, the following resolutions, among other resolutions, were duly passed:
 - (a) that the Articles of Association adopted on 15th April, 2002 be amended to include HKSCC's comment;
 - (b) that the rules of the Share Option Scheme approved and conditionally adopted on 15th April, 2002 be amended by deleting the words "or other person" from the definitions of Participant;
 - (c) that the Board be authorised to form a committee of the Board to exercise the power of the Board; and
 - (d) that the Board be authorised to register the Articles of Association, as amended on 20th April, 2002, with the Administrative Bureau for Industrial and Commercial.

B. SUBSIDIARIES

As at the Latest Practicable Date, the Company had the following subsidiaries:

1. **Chengdu Land E & I Technology Co. Ltd.** (成都蘭德電子信息技術有限公司) ("Chengdu Land")

Chengdu Land was established in the PRC under the Company Law as a limited liability company on 23rd November, 2000. Chengdu Land's registered capital is RMB500,000 of which RMB275,000 was contributed by the Company, accounting for 55% in the registered capital of Chengdu Land.

2. **Hangzhou Trust Communication Service Co. Ltd.** (杭州群思特通信服務有限公司) ("Hangzhou Trust")

Hangzhou Trust was established in the PRC under the Company Law as a limited liability company on 10th May, 2001. Hangzhou Trust's registered capital was RMB500,000 of which RMB300,000 was contributed by the Company, accounting for 60% in the registered capital of Hangzhou Trust. On 30th January, 2002, the registered capital was increased to RMB1,000,000 of which RMB550,000 was contributed by the Company, accounting for 55% in the registered capital of Hangzhou Trust.

3. **Shanghai Langang Communication Technology Company Limited** (上海蘭港通信技術有限公司) ("Shanghai Langang")

Shanghai Langang was established in the PRC under the Company Law as a limited liability company on 10th December, 2001. Shanghai Langang's registered capital is RMB1,000,000 of which RMB510,000 was contributed by the Company, accounting for 51% in the registered capital of Shanghai Langang.

Save as the aforesaid, there has been no alteration in the registered capital of the above three Subsidiaries within two years preceding the date of this prospectus.

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

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Hangzhou Land or the Company or any of its Subsidiaries (as the case may be) within the two years preceding the date of this prospectus, which are or may be material:

- (a) an agreement in Chinese dated 24th September, 2001 made between the Company and Zhejiang University which provided, inter alia, (i) that the parties thereto would establish the Research Center to develop software, (ii) that the Company agreed to provide a sum of not less than RMB1 million per annum for the research and development expenditure of the Research Center, (iii) that the parties thereto agreed that all the software developed by the Research Center, including the copyright and the rights to technological achievement of such software shall be jointly owned by both parties, (iv) that Zhejiang University irrevocably agreed that, within the valid period of protection of software copyright and technological achievement right in the PRC, it would give the Company the exclusive right to use the software copyright and technological achievement (except developers' right), including but not limited to right of patent, right to publicize, right to use, right to license to others, right to remuneration and the right to assign, and (v) that Zhejiang University would only use such software for teaching purposes and for internal research and development;
- (b) an agreement in Chinese dated 4th July, 2000 made between Hangzhou Land and an Independent Third Party whereby the parties thereto agreed to jointly develop the wireless Internet system and explore the wireless Internet market in the PRC; the contractual commitments of Hangzhou Land are as follows:
 - (i) by using it's network resource and platform, Hangzhou Land shall
 - plan, organize and provide information services;
 - connect wireless internet to cable internet;
 - connect Hangzhou Land's information enquiry and order placing to the terminal products;
 - develop application system;
 - (ii) when conducting marketing and commercial activities in relation to wireless internet, both parties shall use each other's products and system for technical support in priority; and
 - (iii) both parties shall maintain each other's enterprise image, product image and market interests and shall not disclose any technological and commercial secrets to any third party;

Hangzhou Land has made no monetary commitment pursuant to this contract; and either party of the contract may terminate the contract if the other party is in breach of the terms of the contract and there are no pre-determined liquidated damages for breach of the contract;

- (c) an agreement in Chinese dated 5th June, 2000 made between Hangzhou Land and Shenzhen Huawei, whereby the parties thereto agreed to co-operate to explore and develop the call service end-user market by providing a complete solution for the setting up of a “Call Service Center”; the contractual commitments of Hangzhou Land are as follows:
 - (i) When setting up “call services center” for end-users, each party of the contract undertakes to recommend the end-user to use the products of the other party; and
 - (ii) When conducting marketing activities, both parties shall respect the market position of the other and each is obliged to recommend and propagandize the product of the other party;

Hangzhou Land has made no monetary commitments pursuant to this contract; and substantial co-operation proposal shall be otherwise decided by both parties and be attached as schedule to the contract and there are no pre-determined liquidated damages for breach of the contract;

- (d) a letter of undertaking in Chinese dated 5th April, 2001 made by IBM Shanghai Software Department to Hangzhou Land whereby IBM Shanghai Software Department promised to assist Hangzhou Land to sell certain products within 2 months commencing from 5th April 2001;
- (e) an agreement in Chinese dated 13th September, 2001 made between Hangzhou Trust and China Unicom Zhejiang Branch (“Unicom Zhejiang”) whereby Hangzhou Trust agreed to provide software and technical support to Unicom Zhejiang and Hangzhou Trust is entitled to 88% of the information service fee paid to Unicom Zhejiang by its mobile phone users; and there is a built-in counting function of the software (provided by Hangzhou Trust) which counts the number of the message send by the mobile phone users of Unicom Zhejiang;
- (f) a shareholders’ agreement in Chinese dated 6th December, 2001 made between the Company and Shanghai Haigang Communication Technology Company Limited (上海海港通信技術有限公司) to set up Shanghai Langang, whereby the Company has committed to pay RMB510,000 as the share capital for its 51% shareholding of Shanghai Lan Gang Technology Limited Company;
- (g) an agreement dated 28th May, 2001 made between Hangzhou Land and Computer Associates (China) Limited, whereby the parties thereto agreed to be long-term strategic partner to each other. Hangzhou Land has made no monetary commitments pursuant to this contract;
- (h) the Underwriting Agreement, particulars of which are set out in the section headed “Underwriting” in this Prospectus;

- (i) a deed of indemnity in Chinese dated 20th April, 2002 and executed by the Promoters in favour of the Company whereby the Promoters have agreed to indemnify the Company against general and tax liabilities, particulars of which are set out in the section headed “Tax indemnity and estate duty” of this Appendix VI; and
- (j) the Sponsor Agreement executed on 24th April, 2002 by the Company and the Sponsor pursuant to Rules 6.01 and 11.09 of the GEM Listing Rules.

2. Intellectual property rights

(a) Trademarks

As at the Latest Practicable Date, Hangzhou Land had applied to the PRC Trademarks Office to register the following trademarks, the registrations of which have not yet been granted:

Name of Applicant	Mark	Class	Application No.	Date of Application	Major Type of Services Covered
1. Hangzhou Land	浙大蘭德	42	2001150618	20th August, 2001	Computer programming
2. Hangzhou Land		42	2001150619	20th August, 2001	Computer programming
3. Hangzhou Land		42	2001150620	20th August, 2001	Computer programming

(b) Domain Names

As at the Latest Practicable Date, Hangzhou Land has registered the following domain names:

Registrant	Domain Name	Registration Date
1. Hangzhou Land	landpage.com.cn	22nd December, 1998
2. Hangzhou Land	zdlандe.com	2nd August, 2001
3. Hangzhou Land	zdlанд.com	2nd August, 2001
4. Hangzhou Land	浙大蘭德 .com	2nd August, 2001

Note: The content on the company’s websites do not form part of this prospectus.

(c) Computer Software Copyrights

As at the Latest Practicable Date, Hangzhou Land has registered the following computer software copyrights:

Name of Software	Registration No.	Date of Registration	Date of Expiry
1. 198 National Hi-speed Network Artificial Supplement System (全國高速網人工輔助席系統 V2.0)	990532	13th May, 1998	13th May, 2048
2. LAND RPS Basic Wireless Paging System (基本無線尋呼系統 V3.12)	990535	5th September, 1998	5th September, 2048
3. Wireless Paging Information Platform Sytem (無線尋呼信息平台系統 V2.0)	990536	30th October, 1998	30th October, 2048
4. Large-scaled Wireless Information Dissemination Control System (大型無線信息發佈控制系統)	2001SR4119	25th August, 2000	25th August, 2050
5. Comprehensive Information Center System (綜合信息中心系統)	2001SR4120	20th October, 2000	20th October, 2050
6. Broad-band Network Fee-charging System (based on processed information) (基於流量的寬帶網計費系統 V1.0)	2001SR3918	2nd June, 2001	2nd June, 2051
7. Large-scaled Broad-band Intelligence Operating System (大型寬帶智能辦公系統)	2001SR3917	30th June, 2001	30th June, 2051
8. Large-capacity Distributed Electronic Mailing System (大容量分佈式電子郵件系統 V1.2.4)	2001SR3919	30th June, 2001	30th June, 2051

D. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS, MANAGEMENT STAFF DISCLOSURE OF INTERESTS

(i) Directors’ and Supervisors’ Service Contracts

Each of the Directors (including the executive and independent non-executive Directors) has entered into a service contract with the Company with effect from 15 October 2001 for a term of three years whereby each of the Directors was appointed as director of the Company subject to termination in certain circumstances as stipulated in the relevant service contract. The current basic annual salary of each Director is as follows:

Executive Directors

Name of Director	Effective Date	Annual Salary RMB
CHEN Ping (陳平)	15 October 2001	250,000
ZHAO Jian (趙建)	15 October 2001	10,000
XUE Shi Cheng (薛仕成)	15 October 2001	20,000
CHEN Chun (陳純)	15 October 2001	40,000
BAO Shu Xin (鮑曙新)	15 October 2001	150,000

The basic annual salary of Chen Ping is relatively higher than those of Zhao Jian, Xue Shi-cheng and Chen Chun, because each of the latter three individuals is simply representative of his own investment company, which is a shareholder of the Company. Zhao Jian, Xue Shi-cheng and Chen Chun do not actually participate in the daily management of the Company and thus, their pays are justified to be lower than that of Chen Ping's.

Independent Non-Executive Directors

Name of Director	Effective Date	Annual Salary RMB
CAI Xiao Fu (蔡小富)	15th October, 2001	5,000
ZHANG De Xin (張德馨)	15th October, 2001	5,000
WANG Yue Hao (王越豪)	15th October, 2001	5,000

Each of the Supervisors has entered into a service contract with the Company on 15th October, 2001 with effect from 15 October 2001 for a term of three years whereby each of the Supervisors was appointed as supervisor of the Company subject to termination in certain circumstances as stipulated in the relevant service contract. The current basic annual salary of each Supervisors is as follows:

Supervisors

Name of Supervisors	Effective Date	Annual Salary RMB
WANG Wei Li (王偉力)	15th October, 2001	40,000
LI Yao Ting (李耀庭)	15th October, 2001	20,000
FU Liang Yuan (傅良園)	15th October, 2001	3,000

Independent Supervisors

Name of Supervisors	Effective Date	Annual Salary RMB
GU Yu Lin (顧玉林)	15th October, 2001	6,000
FENG Pei Xian (鄧培先)	15th October, 2001	3,000

(ii) Directors' and Supervisors' remuneration

An aggregate of approximately RMB347,000 was paid to the Directors and Supervisors as remuneration for the year ended 31st December, 2001. Further information in respect of Directors' and Supervisors' remuneration is set out in Appendix I to this prospectus.

Under the current arrangements, the Directors and Supervisors will be entitled to receive remuneration for the year ending 31st December, 2002 which is expected to be approximately RMB557,000 in aggregate.

(iii) **Directors’ and Supervisors’ interests in the share capital of the Company**

Immediately following the completion of the Placing and assuming that the Over-allotment Option is not exercised, the interests of the Directors in the share capital of the Company and its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests in which they are taken or deemed to have taken under section 31 of, or Part I of the Schedule to, the SDI Ordinance) once the H Shares are listed or which will be required pursuant to section 29 of the SDI Ordinance to be entered in the register referred to therein, once the H Shares are listed, 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 H Shares are listed will be as follows:—

Director/Supervisor	Percentage of deemed beneficial interests in the Company’s share capital	Number of Domestic Shares held
Chen Ping (<i>Chairman and Legal Representative</i>) (陳平) (董事長及法定代表人)	11.20%	36,392,320
Bao Shu-xin (鮑曙新)	2.66%	8,643,170
Chen Chun (<i>Vice-chairman</i>) (陳純) (副董事長)	1.26%	4,094,130

(iv) Save as disclosed herein, but not taking into account any H Shares which may be taken up under the Placing, the Directors are not aware of any legal person or individual who will, immediately following the completion of the Placing, be directly or indirectly interested in 10% or more of the Shares then in issue (assuming that the Over-allotment Option is not exercised).

Party interested in Shares	Number of Domestic Shares directly or indirectly interested	Percentage of registered share capital (assuming the Over-allotment Option is not exercised)
Chen Ping (陳平)	36,392,320	11.20%
Zhejiang Qware	34,117,800	10.50%
Beijing Guoheng	34,117,800	10.50%
Zhejiang Innovation	34,117,800	10.50%

(v) Save as disclosed in this Prospectus:

- (a) none of the Directors has any interest in any Shares in or debentures of the Company or any associated corporation (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which he is 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 which will be required, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, in each case, once the H Shares are listed on GEM. For this purpose, the relevant provisions of the SDI Ordinance will be interpreted as if they applied to the Supervisors;
- (b) none of the Directors or the Supervisors or any of the parties listed in paragraph headed “Qualifications of experts” of this Appendix are directly or indirectly interested in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to the Company, or are proposed to be acquired or disposed of by or leased to the Company;
- (c) none of the Directors or the Supervisors or any of the parties listed in paragraph headed “Qualifications of experts” of this Appendix are 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;
- (d) none of the parties listed in paragraph headed “Qualifications of experts” of this Appendix has any shareholding in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate person to subscribe for securities in the Company or the subsidiaries or an officer, servant, partner of and in employment of an officer or servant of the Company or the subsidiaries;
- (e) none of the Directors or Supervisors entered or proposes to enter into a service contract with Company (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);
- (f) no amount or benefit has been paid or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such amount or benefit intended to be paid or given;
- (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% of the registered 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 H Shares are listed, would fall to be disclosed to the Company under the provisions of Part II of the SDI Ordinance.

E. SUMMARY OF THE TERMS OF THE SHARE OPTION SCHEME

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 20th April, 2002. Adoption of the Share Option Scheme is conditional upon satisfaction of the conditions set out in sub-paragraph (16) below.

For the purpose of this section, unless the context otherwise requires:

“Employee”	means any employee (including Directors) of the Group;
“Grantee”	means any Participant who accepts the offer of the grant of any Option in accordance with the terms of the Share Option Scheme or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Grantee;
“Option”	means an option to subscribe for H Shares granted pursuant to the Share Option Scheme;
“Participant”	means any Employee, who, in the sole discretion of the Board, has contributed to the Group.

(1) Who may join

On and subject to the terms of the Share Option Scheme, the Board shall be entitled at any time and from time to time within 10 years after the date the conditions set out in sub-paragraph (16) below are satisfied, to offer to grant to any Participant as the Board may in its absolute discretion select, and subject to such conditions as the Board may think fit, an Option to subscribe for such number of H Shares, subject to sub-paragraph (6), as the Board may determine at the subscription price determined in accordance with sub-paragraph (5) below, except that Grantees who are PRC nationals 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 and regulation 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 H Shares upon the exercise of any Options which may be granted under the Share Option Scheme.

(2) Offer of Options

An offer of the grant of an Option shall be made to a Participant by letter in such form as the Board may, from time to time determine requiring the Participant to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of this Share Option Scheme and shall remain open for acceptance by the Participant to whom the offer is made for a period of 28 days from the date upon which the offer is made, provided that no such offer shall be open for acceptance after the expiry of 10 years commencing on the date on which the scheme is unconditionally adopted by the Company or after the Share Option Scheme has been terminated.

Any offer of the grant of an Option may be accepted in respect of less than the number of H Shares for which it is offered provided that it is accepted in respect of such number of H Shares as represents a board lot for dealing in H Shares on GEM or an integral multiple thereof. To the extent that the offer of a grant of an Option is not accepted within 28 days (or such shorter period as referred to in the preceding paragraph), it will be deemed to have been irrevocably declined and the offer will lapse automatically.

No offer of Options shall be made after a price sensitive event 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 earlier of: (a) the date of the Board meeting for the approval of the Company's quarterly, interim or annual results; and (b) the deadline for the Company to publish its quarterly, interim or annual results announcement under the GEM Listing Rules, and ending on the date of the results announcement, no Options may be granted.

(3) Payment on acceptance of option offer

HK\$1.00 is payable by the Participant to the Company on acceptance of the Option offer and such payment shall in no circumstances be refundable.

(4) Terms and Conditions of Options

The Board shall not grant any offer of Options to any Participant without first ascertaining whether such Participant is a PRC national. Any offer of Options to Participants who are PRC nationals must be made upon the condition, among others, that no Options so taken up by any such Participants shall until (a) the H Shares Restrictions have been abolished or removed; and (b) the approval of CSRC or other relevant government authorities in the PRC have been obtained for the exercise of any Option 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 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.

(5) Price of Shares

The subscription price for H Shares in respect of any particular Options shall be such price as determined by the Board in its absolute discretion at the time of the grant of the relevant Option and must be at least 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 grant, which must be a business day, (b) the average closing price of the H Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant and (c) the nominal value of a H Share. For the purpose of calculating the subscription price where the Company has been listed for less than 5 Business Days, the initial placing price of the H Shares shall be used as the closing price for any Business Day falling within the period before their listing date. Without prejudice to the generality of the foregoing, the Board may grant Options in respect of which the Subscription Price is fixed at different prices for certain periods during the Option Period.

(6) Maximum number of H Shares available for subscription

Subject to the following sub-paragraphs, the maximum aggregate number of H Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme and any other schemes must not exceed 30% of the H Shares of the Company (or its subsidiary) in issue from time to time (“Overall Scheme Limit”). No Options may be granted under any scheme of the Company (or its subsidiary) if it will result in the Overall Scheme Limit being exceeded.

- (a) The total number of H Shares which may be issued upon exercise of all Options to be granted under the Share Option Scheme and any other scheme, must not in aggregate, exceed 10% of the number of the H Shares of the Company (or its subsidiary), in issue as of the date of approval of the Share Option Scheme (“Scheme Mandate Limit”) unless shareholders’ approval has been obtained pursuant to paragraph (b) or (c) below. Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (b) Subject to the Overall Scheme Limit, the Company may seek approval by its shareholders in general meeting for “refreshing” the Scheme Mandate Limit. However, the total number of H Shares which may be issued upon exercise of all Options to be granted under all of the schemes of the Company (or the subsidiary) under the Scheme Mandate Limit as “refreshed” must not exceed 10% of the H Shares in issue as at the date of approval of the Scheme Mandate Limit as “refreshed” (the “Refreshed Scheme Mandate Limit”). Options previously granted under the schemes of the Company (including those outstanding, cancelled, lapsed in accordance with the scheme or exercised options) will not be counted for the purpose of calculating Refreshed Scheme Mandate Limit. The Company must send a circular to its shareholders containing the information required under Rule 23.02(2)(d), and the disclaimer required under Rule 23.02(4), of the GEM Listing Rules.
- (c) Subject to the Overall Scheme Limit, the Company may seek separate approval by its shareholders in general meeting for granting Options beyond the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit (as the case may be) provided the Options in excess of the Scheme Mandate Limit or the Refreshed Scheme Mandate Limit (as the case may be) are granted only to Participants specifically identified by the Company before such approval is sought. The Company must send a circular to the shareholders containing a generic description of the specified Participants who may be granted such Options, the number and terms of the Options to be granted, the purpose of granting Options to the specified Participants with an explanation as to how the terms of the Options serve such purpose, the information required under Rule 23.02(2)(d), and the disclaimer required under Rule 23.02(4), of the GEM Listing Rules.
- (d) In addition to the shareholders’ approval set out in Note 1 to Rule 23.03(3) and the Note to Rule 23.03(4) of the GEM Listing Rules, each grant of Options to a director, promoter, supervisor, chief executive, management shareholder or substantial shareholder (“Connected Person”) of the Company, or any of their respective associates, under the Share Option Scheme or a scheme of any of its subsidiaries will be subject to approval by the independent non-executive directors of the Company

(excluding independent non-executive directors who are the Grantee of the Options). Where any grant of Options to a substantial shareholder or an independent non-executive director of the Company or any of their respective associates, would result in the H Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% of the H Shares in issue; and
- (ii) (where the securities are listed on the Exchange), having an aggregate value, based on the closing price of the H Shares at the date of each grant, in excess of HK\$5 million,

such further grant of Options must be approved by independent shareholders of the Company. The Company must send a circular to the shareholders. All Connected Persons of the Company must abstain from voting at such general meeting, except that any Connected Person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. The circular must contain:

- (1) details of the number and terms (including the subscription price) of the Options to be granted to each Participant, which must be fixed before the shareholders' meeting and the date of the board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price under Note 1 to Rule 23.03(9) of the GEM Listing Rules.
 - (2) a recommendation from the independent non-executive directors of the Company (excluding the independent non-executive director who is the Grantee of the Options) to the independent shareholders as to voting;
 - (3) the information required under Rule 23.02(4) of the GEM Listing Rules;
 - (4) shareholders' approval as required under Rule 23.04 of the GEM Listing Rules is also required for any change in the terms of Options granted to a Participant who is a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates; and
 - (5) the requirements for the granting of Options to a director or chief executive of the Company set out in Rule 23.04 of the GEM Listing Rules do not apply where the Participant is only a proposed director or chief executive of the Company.
- (e) Unless approved by shareholders in the manner set out under the Note to rule 23.03(4) of the GEM Listing Rules, the total number of H Shares issued and to be issued upon exercise of the Options granted to each Participant (including both exercised and outstanding Options) in any 12 month period must not exceed 1% of the H Shares in issue ("Individual Limit"). Where any further grant of Options to a Participant would result in the H Shares issued and to be issued upon exercise of all Options granted and to be granted to such person (including exercised, cancelled and outstanding Options)

in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the H Shares in issue, such further grant must be separately approved by shareholders of the Company in general meeting with such Participant and his/her associates abstaining from voting. The Company must send a circular to the shareholders and the circular must disclose the identity of the Participant, the number and terms of the Options to be granted (and Options previously granted to such Participant), the information required under Rule 23.02(2)(d) and the disclaimer required under Rule 23.02(4) of the GEM Listing Rules. The number and terms (including the subscription price) of Options to be granted to such Participant must be fixed before shareholders' approval and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price under Note 1 to Rule 23.03(9) of the GEM Listing Rules.

(7) Time of exercise of option

No Participants who are PRC nationals and have taken up any Options 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 Options 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 determined by the Board in its absolute discretion in respect of any particular Option provided that the period within which the Option must be exercised shall be 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 assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option. Any breach of the foregoing shall entitle the Company to cancel any outstanding Option or part thereof granted to such Grantee.

(9) Rights on ceasing employment, death, takeover, compromise, voluntary winding-up, compromise for reconstruction or amalgamation and reorganisation

Subject to the following and subject to the H Shares Restrictions having been abolished or removed and approvals having 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 to PRC nationals, an Option may be exercised by the Grantee (or his or her personal representative) at any time during the Option Period, provided that:

(a) *Rights on ceasing employment*

If the Grantee, who is an Employee at the time when the relevant Option shall have been granted, ceases to be an Employee for any reason other than death or the termination of his or her employment on one or more grounds as specified in sub-paragraph (11)(iv)

below, 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 Company or the relevant Subsidiary whether salary is paid in lieu of notice or not.

(b) *Rights on death*

If the Grantee of an Option dies before exercising the Option in full and in the case where the Grantee is an Employee none of certain events which would be a ground for termination of his or her employment as specified in sub-paragraph (11)(iv) below 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 to takeover*

If a general offer by way of takeover is made in the PRC and/or Hong Kong to all the holders of H shares (or all such holders other than the offeror, any persons under the control of the offeror or parties in concert with the offeror) and, in the case of 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 prior to the expiry date of the relevant Option, the Grantee (or his or her legal personal representative) shall be entitled to exercise the Option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(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 the extent not already exercised) to its full extent specified in such notice.

(e) *Rights on voluntary 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 forthwith give notice thereof to all Grantees (together with a notice of the existence of the provision of this sub-paragraph) and thereupon, each Grantee (or his or her personal representatives) shall, upon the giving of a written notice to the Company (such notice to be received by the Company no later than four business days prior to the proposed general meeting of 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, be entitled to exercise all or any of his Options 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.

(f) *Rights on compromise for reconstruction or amalgamation*

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with any Scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to its members or creditors to consider such scheme or arrangement and the Grantee (or his or her personal representative) may by notice in writing to the Company accompanied by the remittance for the subscription price in respect of the relevant Option (such notice to be received by the Company not later than two business days prior to the date of the proposed meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice, and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue the relevant H Shares to the Grantee credited as fully paid and register the Grantee as holder thereof.

(g) *Rights on Reorganisation*

In the event of a reorganisation or proposed reorganisation, the Company, at its option, may do either of the following:

- (i) the Company may irrevocably commute for or into any other security or other property or cash any Option that is still capable of being exercised, upon giving to the Grantee to whom such Option has been granted at least twenty one days written notice of its intention to commute the Option, and during such period of notice, the Option may be exercised (to the extent that it has not been exercised) by the Grantee by notice in writing to the Company either to its full extent or to the extent specified in such notice and on the expiry of such period of notice, the unexercised portion of the Option shall lapse and be cancelled, or
- (ii) the Company or any company which is or would be the successor to the Company or which may issue securities in exchange for H Shares upon the reorganisation becoming effective, may offer any Grantee the opportunity to obtain a new or replacement Option over any securities into which the H Shares are changed or convertible or exchangeable, on a basis proportionate to the number of H Shares under the Option. In such event, the Grantee shall, if the Grantee accepts such offer, be deemed to have released such Grantee's Option over H Shares or such Options shall be deemed to have lapsed.

(10) Effects of alterations to capital

In the event of any alteration in the capital structure of the Company whilst any Option remains exercisable, whether by way of capitalisation of profits or reserves ("Capitalisation Issue"), rights issue, subdivision or consolidation of H Shares or a reduction of capital or otherwise howsoever in accordance with legal requirements and requirements of the Stock Exchange other than any alteration in the capital structure of the Company as a result of an issue of H Shares as consideration in a transaction to which the Company is a party, or in the event of any distribution of the Company's capital assets (including a Capitalisation Issue) to its shareholders on a pro rata basis (whether in cash or in species), other than dividends paid out

of net profits attributable to shareholders for each financial year of the Company, such corresponding adjustments (if any) shall be made in the subject matter of the number of H Shares subject to the Option so far as unexercised or the subscription price and the Share Option Scheme provided that the adjustments must give the Grantee the same proportion of the equity capital as that to which that particular Grantee was previously entitled, but no such adjustments may be made to the extent that an H Share would be issued at less than its nominal value. The issue of H Shares as consideration in a transaction may not be regarded as a circumstance requiring adjustment. In request of any such adjustments, other than any made on a Capitalisation Issue, an independent financial adviser or the Company's auditors must confirm to the Directors in writing that the adjustments satisfy the requirements set out in the Note to Rule 12.03(13) of the GEM Listing Rules.

(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 (9)(a) or (b);
 - (iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in sub-paragraph (9)(d);
 - (iv) if the Grantee is an Employee at the time when the relevant Option shall have been granted, the date on which the Grantee ceases to be an Employee by reason of the termination of his or her employment on grounds that he or she has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his or her debts or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving integrity or honesty;
 - (v) subject to any court of competent jurisdiction not making an order prohibiting the offeror to acquire the remaining Shares in the offer, the expiry of the period referred to in sub-paragraph (9)(c);
 - (vi) the date of the commencement of the voluntary winding up of the Company referred to in sub-paragraph (9)(e);
 - (vii) the date on which the grantee commits a breach of sub-paragraph (8);
- (b) If a Grantee who is a PRC national shall cease to be an Employee or shall die before exercise his or her Option(s), or if a general offer by way of a takeover or by way of a scheme of arrangement or if a compromise or arrangement is proposed in connection with any scheme for the construction or amalgamation of the Company, or in the event of a reorganisation of the Company, 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 Option 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 all the provisions of the Company's Articles of Association for the time being in force and will rank *pari passu* with the fully paid H Shares in issue on the day when the name of the particular Grantee is registered on the register of members of the Company and will accordingly entitle the holder thereof to participate in all dividends or other distributions paid or made on or after the day when the name of the Grantee is registered on the register of members of the Company other than any dividends or other distributions previously declared or recommended or resolved to be paid or made if the record date thereof shall be before the day when the Grantee is registered on the register of members of the Company.

Unless the context otherwise requires, references to "H Shares" in the Share Option Scheme include references to H 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 Grantees and their associates abstaining from voting. Any vote taken at the meeting to approve such cancellation must be taken by poll. Cancelled options may be re-issued after such cancellation has been approved, provided that re-issued option shall only be granted in compliance with the terms of the Share Option Scheme. Where the Company cancels Options to a particular Grantee, and issues new Options to the same Grantee, the issue of such new Options may only be made under a scheme with available unissued Options (excluding the cancelled Options) within the limit approved by the Shareholders pursuant to Note 1 of Rule 23.03(3).

(14) Period of Share Option Scheme

The Share Option Scheme will remain valid and effective for a period of 10 years commencing on the date, it becomes unconditional (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

This Share Option Scheme may be altered in any respect by resolution of the Board or scheme administrators except that the provisions of this Share Option Scheme as to:

- (a) alterations to matters set out in Rule 23.03 which will be to the advantage of Participants;
- (b) terms and conditions which are of a material nature and any change to the terms of Options already granted (except where the alteration takes effect automatically under the existing terms of the Share Option Scheme); and
- (c) changes to the authority of the Directors or scheme administrator in relation to any alteration to the terms of the Share Option Scheme,

must be approved by shareholders of the Company in general meeting.

The amended terms of this Share Option Scheme or the Options to be granted thereunder must still comply with relevant requirements of Chapter 23 of the GEM Listing Rules as amended from time to time.

(16) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on (a) the passing of the necessary resolution(s) by the shareholders of the Company to approve and adopt the Share Option Scheme, and to authorise the directors of the Company to grant Options and to allot, issue and deal with H Shares pursuant to the exercise of any Options granted under the Share Option Scheme; (b) the GEM Listing Committee of the Stock Exchange granting approval of the listing of and permission to deal in any H Shares which may be issued pursuant to the exercise of Options granted under the Share Option Scheme; and (c) the commencement of dealings in the H Shares on GEM. Application has been made to the GEM Listing Committee of the Stock Exchange for the approval of 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. No Option has been granted or agreed to be granted as at the date of this prospectus.

(17) Administration

The Share Option Scheme shall be subjected to the administration of the Board, whose decision (save as otherwise provided in the Share Option Scheme) shall be final and binding on all parties. References to the Board in respect of the administrative matters of the Share Option Scheme may mean a committee of the Board.

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

Under the deed of indemnity dated 20th April, 2002 and executed by the Promoters in favour of the Company, the Promoters have undertaken to and covenanted with the Company that they will

indemnify and keep the Company indemnified against any and all tax liabilities falling on the Company which might be payable by the Company in respect of any incomes, profits or gains earned, accrued or received on or before the date on which the Placing becomes unconditional, save in the following circumstances:

- (a) to the extent that provision or reserve has been made for such indemnities amounts in the audited accounts as have been prepared for the Company as at 31st December, 2001;
- (b) relating to any incomes, profits or gains earned, accrued or received or any event after the date on which the Placing becomes unconditional;
- (c) which would not have arisen but for any act or omission by the Company voluntarily effected without the prior written consent or agreement of the Promoters, otherwise in the ordinary course of business after the date on which the Placing becomes unconditional;
- (d) to the extent that such taxation claim arises or is incurred as a result of imposition of taxation in consequence of any retrospective change in the law coming into force after the date on which the Placing becomes unconditional or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after the date on which the Placing becomes unconditional with retrospective effect; and
- (e) relating to Hong Kong profits tax falling on the Company in respect of its accounting periods commencing on or after the date the Placing becomes unconditional unless liability for such Hong Kong profits tax would not have arisen but for some act or omission of, or transaction entered into by the Promoters or the Company (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) otherwise than in the course of normal day to day operations on or before the date the Placing becomes unconditional.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company 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. Sponsor(s)

- (a) CPY has made an application on behalf of the Company to the GEM Listing Committee for the granting of the listing of, and permission to deal in, the H Shares in issue and to be issued as mentioned herein.
- (b) CPY will receive normal professional fees in connection with the advisory services to be provided to the Company for a period covering the remainder of the financial year ending 31st December, 2002 and the two financial years thereafter.

(c) CPY International (for and on behalf of the Underwriters) will receive underwriting commission pursuant to the 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, 2001 (being the date to which the latest audited financial statements of the Company were made up).

5. Preliminary expenses

No preliminary expenses were payable by the Company.

6. Promoters

The Promoters of the Company are Zhejiang Qware¹, Beijing Guoheng², Zhejiang Innovation³, and eleven individuals who are Chen Ping (陳平), Chen Guo-cai (陳國才), Wu Zhong-hao (吳忠豪), Shi Chun-hua (施春華), Bao Shu-xin (鮑曙新), Wang Jin-cheng (王金成), Wang Lei-bo (王雷波), Liu Qiao Ping (劉巧萍), Chen Chun (陳純), Huo Zhong-hui (霍忠會) and Jin Lian-fu (金連甫). 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.

Notes:

1. Zhejiang Qware is a limited company established in the PRC on 11th May, 2001 with a registered and paid up capital of RMB18,000,000. It has 9 directors namely, Zhao Jian (趙建), Xu Jian-ming (許建明), Wang Xian-ping (王獻平), Yu Qiang (郁強), Gao Xiao-Ping (高小平), Jiang Quan (蔣泉), Xu Zhi-jian (徐志堅), Chen Chun (陳純) and Jiang Yi (蔣憶). It's auditor is Zhejiang Zhijiang Certified Accountants, whereas it's principal banker is Hangzhou Commercial Bank Qiusi Branch (杭州市商業銀行求是支行).
2. Beijing Guoheng is a joint stock limited company established in the PRC on 13th September, 1994 with a registered and paid up capital of RMB76,000,000. It has five directors namely, Gao Yang-yu (高揚瑜), Jiang Dong-ming (姜東溟), Xue Shi-cheng (薛仕成), Yang Fu-xuan (楊福軒) and Chen Hai-sui (陳海遂). It's principal banker is China Agricultural Bank (中國農業銀行總行).
3. Zhejiang Innovation is a limited company established in the PRC on 6th June, 2001 with a registered and paid up capital of RMB240,000,000. It has seven directors namely, Pan Yun-he (潘雲鶴), Zhao Jian (趙建), Xu Jian-ming (許建明), Chen Chun (陳純), Huang Xin (黃昕), Zhu Jiang-ping (朱江平) and Shen Shui-rong (沈水榮). It's auditor is Zhejiang Zhengxin Lianhe Certified Public Accountants (浙江正信聯合會計師事務所) whereas it's principal banker is China Agricultural Bank Xihu Branch (中國農業銀行西湖支行).

7. Qualifications of experts

Name	Qualifications
Core Pacific-Yamaichi Capital Limited	Registered investment advisor
Arthur Andersen & Co	Certified public accountants
Fangda Partners	Licensed PRC legal advisors on PRC law
Sallmanns (Far East) Limited	Chartered surveyors and independent valuers

8. Consents of experts

Each of CPY, Arthur Andersen & Co, Fangda Partners 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 so far as applicable.

10. Miscellaneous

(a) Save as disclosed in this prospectus:

- (i) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its Subsidiaries, if any, has been issued or agreed fully or partly paid either for cash or a consideration other than cash;
- (ii) 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;
- (iii) 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;
- (iv) within the two years preceding the date of this prospectus, no commission has been paid or payable to any person (excluding commission to sub-underwriters) for subscribing or agreeing to subscribe, procuring subscription or agreeing to procure subscription of any shares in the Company;
- (v) there are no founders, management or deferred shares in the Company;
- (vi) none of CPY, Arthur Andersen & Co, Fangda Partners and Sallmanns (Far East) Limited:—
 - (i) is interested beneficially or non-beneficially in any securities in the Company; or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or nominate person to subscribe for any securities in the Company; or
 - (iii) has any direct or indirect interest in the promotion of, or in any assets which have been acquired or disposed of by or leased to the Company within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of or leased to the Company,
- (vii) the Directors confirm that there has not been any interruption in the business of the Company which has had a material adverse effect on the financial position of the Company in the 24 months preceding the date of the publication of this prospectus.

- (b) The Company currently is not subject to the PRC Sino-Foreign Joint Venture Law (中華人民共和國中外合資經營企業法), intends to apply for the status of a sino-foreign investment joint stock limited company and expects to be subject to the PRC Sino-Foreign Joint Venture Law after the Placing.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the paragraph headed “Consent of experts” in Appendix VI to this prospectus, copies of the material contracts referred to in paragraph headed “Summary of material contracts” in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Charltons at 56th Floor, Bank of China Tower, One Garden Road, Central, Hong Kong during normal business hours up to and including 8th May, 2002:

- (a) the Articles of Association;
- (b) the accountants’ report on the Company prepared by Arthur Andersen & Co, the text of which is set out in Appendix I to this prospectus, and the related statement of adjustments;
- (c) the letter and valuation certificate relating to the property interests of the Group prepared by Sallmanns (Far East) Limited, the text of which is set out in Appendix II to this prospectus;
- (d) the PRC legal opinion prepared by Fangda Partners dated 22nd April, 2002, the PRC legal adviser to the Company;
- (e) the material contracts referred to in the paragraph headed “Summary of material contracts” of Appendix VI to this prospectus;
- (f) the written consents referred to in paragraph headed “Consents of experts” of Appendix VI to this prospectus; and
- (g) the Company Law, the Mandatory Provisions and the Special Regulations together with their unofficial English translations.