



ITE (HOLDINGS) LIMITED

(Incorporated in the Cayman Islands with limited liability)



PLACING

Sponsor and Lead Manager



VICKERS BALLAS

IMPORTANT

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



ITE (HOLDINGS) LIMITED

(incorporated in the Cayman Islands with limited liability)

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

PLACING OF SHARES

**Number of Placing Shares : 45,000,000 Shares (subject to
Over-allotment Option)**
**Price Range : Between HK\$0.73 and
HK\$0.93 per Share**
Nominal Value : HK\$0.01 each
Stock Code : 8092

Sponsor and Lead Manager



VICKERS BALLAS

Co-Managers

KGI Asia Limited

Celestial Capital 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 VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32, Laws 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 document referred to above.

The Issue Price is expected to be fixed on or around 16th February, 2001, or on a date which is no later than 20th February, 2001, by agreement between the Sponsor (on behalf of the Underwriters) and the Company with reference to market demand for the Shares.

The Sponsor, on behalf of the Underwriters, may with the consent of the Company reduce the Issue Price to a price below the range stated in this prospectus on or before 20th February, 2001. In such case, notice of reduction in the Issue Price will be published on the GEM website (in English and Chinese) not later than the morning of 20th February, 2001.

If the Sponsor (on behalf of the Underwriters) and the Company are unable to reach agreement on the Issue Price on or before 20th February, 2001, the Placing will not become unconditional and will not proceed.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" of this prospectus.

15th February, 2001

Characteristics of GEM:

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 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 GEM mean that it is a market more suited to professional and other sophisticated investors.

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

The principal means of information dissemination on 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 GEM-listed companies.

EXPECTED TIMETABLE

2001

Price Determination Date (<i>Note 2</i>)	16th February
Announcement of Issue Price and the results of interests in the Placing to be published on the GEM website at <i>www.hkgem.com</i> on or about	20th February
Allotment to placees pursuant to the Placing on or before	20th February
Despatch of share certificates (<i>Note 3</i>)	20th February
Dealings in Shares on GEM to commence on	21st February

Notes:

1. All times refer to Hong Kong local time.
2. The Price Determination Date is expected to be on or around 16th February, 2001, and in any event will be on or before 20th February, 2001. If, for any reason, the Issue Price is not agreed on or before 20th February, 2001, the Placing will not proceed.
3. The share certificates are expected to be issued in the name of HKSCC Nominees Limited or in the name of the placee(s) or their agent(s) as determined by the Sponsor. Share certificates for Placing Shares to be distributed via CCASS will be deposited into CCASS on or about 20th February, 2001 for credit to the respective CCASS participant's stock accounts designated by the Underwriters, the placees or their agents, as the case may be. No temporary documents of title will be issued.

For details of the structure of the Placing, including conditions of the Placing, see the section headed "Structure of the Placing" of this prospectus.

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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, their respective directors or any of them, or any other persons involved in the Placing.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Placing Shares.

There are risks associated with investment in companies listed on GEM. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" of this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

OVERVIEW

The Group is a smartcard solution provider and system integrator. It utilises a combination of smartcard system expertise, component level technical knowledge and its extensive software library to design and implement smartcard solutions based upon the requirements of its clients. Most of the smartcard systems designed and implemented by the Group are based on personalised smartcard and are used for e-payment and intelligent facility management. The smartcard and related control systems adopted for intelligent facility management are used to control and monitor various aspects of facility including security, energy consumption, resources allocation and Internet/Intranet connection and access. The Group's smartcard solution can also cater for a wide range of applications such as automatic fare collection and network security. To complement its smartcard solution, the Group leverages on its expertise and innovations to initiate its own product ideas and develops a set of devices commonly used in a smartcard system. The set of devices developed by the Group can be supplied as part of the system solutions provided by the Group. The Group also designs and supplies intelligent facility management system which does not utilise any smartcard applications.

The Directors consider that the Group is one of the leading smartcard solution providers and system integrators in a few segments of the smartcard market, namely campus and real estate markets in Hong Kong. The Group's clients also comprise government departments including Hong Kong Housing Authority. As an early mover in the smartcard market in Hong Kong, the Group is proactively expanding its client base. The Group is involved in discussions with the operator of Octopus system (which is, inter alia, an automatic fare collection system for the mass transit railway system in Hong Kong) in relation to the provision of solutions for Octopus based access control system to business entities, buildings and estates. The Directors believe that as Octopus based smartcard systems are becoming more popular in the daily life of the Hong Kong population, there are substantial opportunities for smartcard solution providers including the Group. The discussion with the operator of Octopus is still ongoing and no agreement has yet been reached.

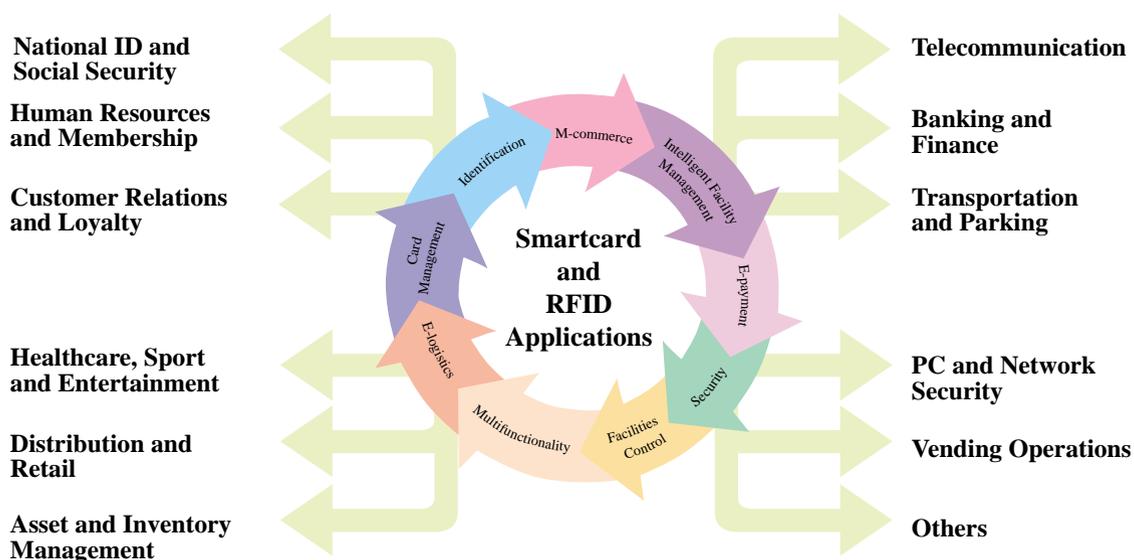
Equipped with the technological know-how in and experience gained from developing smartcard systems, in particular using RFID (radio frequency identification) technology for contactless smartcard system, the Group is planning to expand its range of smartcard applications and client base to other business segments such as transportation, banking, retail, e-commerce and telecommunications.

MISSION

It is the mission of the Group to “*provide total control and automation solution to enhance quality in various aspects of life and commercial operation through the utilisation of smartcard and RFID technology*”.

SMARTCARD AND RFID APPLICATIONS

Smartcard and RFID technology has been applied in a wide range of area as illustrated below. With technological advancement and application innovation, the smartcard and RFID technology can also be used in other fields. The Group intends to make use of its technology and application know-how to provide tailored made solutions for many different applications in the future. Details of the Business Plan are set out in the section headed “Future Plans and Prospects” of this prospectus.



STRENGTHS

The Directors believe that the principal strengths of the Group are as follows:

- its leading position in providing contact and contactless smartcard systems, in particular, for campus and real estates in Hong Kong;
- its strong R&D team which specialises in delivering both contact and contactless smartcard solutions with technological neutral approach;
- its approach of active participation in the entire smartcard value-added chain (including integration of semi-finished products, development of terminal, application and interface, system integration and implementation of applications);
- its innovative application of smartcard, industrial and information technologies; and
- its experienced and dedicated management team with in-depth technical knowledge in smartcard solutions.

FUTURE PLANS

The Directors believe that the smartcard industry is a developing and fast growing one with enormous potential in terms of geographical, user adaptation and scope of applications. High double digit revenue growth is expected in new applications of smartcard and RFID technology in e-commerce and e-infrastructure, especially in the Asia Pacific region.

It is the goal of the Group to capture market opportunities by developing and expanding its technological and application know-how and widening its business coverage and ultimately to become a market leader in the Asia Pacific region. To date, the focus for the Group has been Hong Kong. In the immediate near future, the Group will expand its business into the PRC, which is believed to be one of the fastest growing and largest markets for smartcard and RFID applications. In the medium term, the Group also plans to establish offices or other forms of presence in selected markets across the Asia Pacific region after undertaking careful market study.

The Group intends to attain its goal through implementing the following strategies.

Continue R&D of technology and application

The Group strives to provide the latest and fastest smartcard solutions with superior service quality in terms of technical know-how, product range, flexibility and timeliness. The Directors believe that this can be achieved by continuing R&D in new technologies and exploring new applications. The Group will concentrate on the development of technologies in such fields as RFID based application for logistics and supply chain management and smartcard based security and e-commerce solution, which are expected to generate significant profits to the Group. In addition to establishing a professional and proactive R&D team, the Group will continue to foster its network of technology providers, smartcard and component manufacturers with a view to offering quality solution to its clients.

Expand range of applications and innovate new applications

The Directors are of the opinion that with innovation and technological advancement, limitless applications can be derived from smartcard and RFID technologies to serve the needs for control and automation in various aspects of life and commercial operation. The Directors are confident that with its technical background, the Group is capable of running additional business models either on its own as a service provider (for example, offering a loyalty program, members of which can use personalised smartcard to access privileged information and/or enjoy discount for merchandise) or in collaboration with other service providers (for example, collaboration with the operator of Octopus system in Hong Kong). Based on the currently intended scope of collaboration with the operator of Octopus, no third party approval is required. With its enlarging technology and application knowledge base, the Group's solution development time is being shortened and it would be economical for the Group to expand into other systems and applications such as those for social security and financial institutions. The Directors regard e-commerce, facility and access control running on a common smartcard platform and e-logistics as a medium term target market and intend to initiate cooperation with relevant service providers in the future.

Capitalise on opportunities in e-commerce in the Asia Pacific region

The advantages of applying smartcard solutions in e-commerce have been widely acknowledged, in particular, in terms of security. As remarked by **Mr. Bill Gates**, the chairman and chief software architect of Microsoft Corporation "*The whole trust thing is a big*

part of this [e-commerce and the Internet], and many mechanisms have been proposed, whether it's fingerprints or voice prints. And it's our view that there's enough complexity and drawbacks to those approaches [and] that it's really the smartcard that's most likely to be very, very pervasive and taken for granted in terms of identity and security." As such, the Group foresees significant business potential in applying smartcard solutions to the world of e-commerce. The Group intends to become a leading regional provider of smartcard based e-commerce and e-payment solutions, which will enable service providers (such as banks and e-commerce operators) to provide more convenient and secure services to their customers. The Directors expect that these solutions may include smartcard solutions for credit card business and biometric based smartcard secured online data transmission. To accomplish this goal, the Group will explore different business models and formulate strategic alliances with players engaged in e-commerce and e-infrastructure. The Directors expect that the Group will commence the related R&D works and formulate detailed plans in these respects during the six months period ending 30th September, 2001.

Expand participation in the value-added chain of smartcard business

Currently, the Group's activities are mainly the designing of and providing smartcard solutions. The Directors consider that it will be beneficial for the Group to expand vertically to participate in the manufacturing of smartcard and related peripheral hardware. The Directors intend that such participation will take the forms of strategic alliance, investment in minority equity stake in a selected manufacturer or other cost effective means which will not require intensive capital commitment. As at the Latest Practicable Date, no target company for strategic alliance or investment has been identified and accordingly, no agreement has been entered into in this regard. The Directors believe that by extending the Group's participation in the value-added chain, the Group will be able to secure more timely and reliable supply of related hardware and enhance its capability to provide end-to-end solutions for the clients. It is the belief of the Group that comprehensive technical knowledge of the hardware and software aspects of a system is paramount for building a quality system. Therefore, the Group will also take advantage of the experience and resources of smartcard manufacturers so as to enhance the Group's R&D capability.

Evolve to be community service provider

The Directors believe that the Group has established a distinct market position as a smartcard system integrator and solution provider. Looking ahead, it is the goal of the Group to become an integrated smartcard service provider. The business model of "smartcard service provider" represents a step ahead for the Group's development in which the Group will operate a smartcard system, create content and interests to foster a captive community base and directly serve the users so as to obtain revenue on a transaction basis. For example, the Group may run a loyalty program of its own. The Directors believe that the Group's solid foundation as a solution provider and system integrator will provide a good platform for the Group's development in such direction. The Directors are of the view that the community base formed by users of a smartcard system will become intangible assets of the Group. The Directors expect that such community base could become a source of loyal clients for the Group and various services could be offered to users in such community base. By bringing unique application experience to users, the Directors believe that the smartcard service provider business will provide recurring cash flows in the long term.

Warning:

The future plans and business prospects of the Group described in the section headed “Future plans and prospects” in this prospectus are based on existing plans and intentions of the Company. Such intentions and plans are based on the assumptions set out in the paragraph headed “Bases and assumptions” in the section headed “Future plans and prospects” of this prospectus, and are by their nature subject to uncertainties arising from changes in operating environment. The Group’s actual course of business development may vary from the intentions and plans described in this prospectus. Although the Directors are committed to use their best endeavours to execute the Business Plan in accordance with the timeframe and budget set out herein, there is no assurance that the Business Plan will materialise, or be executed in accordance with the set timeframe and budget, or the objectives of the Group will be fully accomplished.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that listing on GEM will enhance the Group’s profile and the Placing will expand the Group’s capital base for future growth and development. The net proceeds of the Placing, after deducting related expenses (assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$28 million based on the mid-point of the stated price range of HK\$0.83 per Share. The Directors presently intend to use such net proceeds as follows:

- Approximately HK\$8 million for R&D of smartcard and RFID technological know-how and applications relating to, *inter alia*, national ID, social security, e-commerce and e-logistics;
- Approximately HK\$5 million for expanding the Group’s operations in the Asia Pacific region (including the PRC) and other selected countries by way of, *inter alia*, establishment of offices and organising promotional activities in those countries;
- Approximately HK\$4 million for strategic acquisition of and/or investment in companies whose businesses are of synergistic value to the Group;
- Approximately HK\$4 million for vertical integration along the smartcard value-added chain by way of, *inter alia*, investment in manufacturers of smartcard and related peripheral equipment;
- Approximately HK\$3 million for promotion and business development for new value-added services and application fields;
- Approximately HK\$1 million for expanding the Group’s operations in Hong Kong by way of expansion of sales force, direct marketing and brand building activities;
- Approximately HK\$1 million for the enhancement of the Group’s quality assurance system; and

SUMMARY

- The remaining balance of approximately HK\$2 million to be used as working capital of the Group.

To the extent that the net proceeds of 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 on short term deposits with financial institutions in Hong Kong.

If the Issue Price is set below HK\$0.83, the net proceeds will accordingly be reduced and the amount to be used as working capital will accordingly be reduced.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$5.4 million based on the mid-point of the stated price range of HK\$0.83 per Share. The Directors will allocate this additional amount to the aforesaid areas to facilitate the implementation of the Business Plan which are set out in the section headed “Future Plans and Prospects” of this prospectus.

As set out in the section headed “Future Plans and Prospects” of this prospectus, the Directors estimated that the cost of implementation of the Business Plan up to 31st March, 2003 will be approximately HK\$56.5 million. Based on such scheduled cost of implementation and the Directors’ intention to apply the net proceeds of the Placing to finance the Business Plan before utilising other financial resources, the net proceeds will be utilised by 31st March, 2002. The Directors intend to obtain further funding to meet the remaining funding requirement of approximately HK\$32.5 million (after the estimated net proceeds of approximately HK\$24 million of the Placing based on the lower end of the stated issue price range of HK\$0.73 per Share) for financing the implementation of the Business Plan principally through cashflows generated from operations and supplemented by bank financing or fund raising in the international capital and debt markets or through a combination of these methods, as considered appropriate in the circumstances. However, the Company will not be able to issue new Shares within a period of six months following the date on which dealings in the Shares commence. In the event that the Group cannot obtain sufficient funding for implementing the Business Plan, the Directors will carefully evaluate the then requirements of the Group and other relevant factors and circumstances and may revise the allocation of the resources to the above areas as appropriate. In addition, in such event, the expansion projects described in the Business Plan may be scaled up or down depending on factors such as market conditions, technology trends and financial resources available to the Group.

SUMMARY

TRADING RECORDS

The following is a summary of the combined results of the Group for the two years ended 31st March, 2000 and the five months ended 31st August, 2000, which are extracted from the accountants' report set out in Appendix I to this prospectus. The combined results are prepared on the basis of presentation set out in the accountants' report set out in Appendix I to this prospectus.

	Year ended 31st March, 1999 HK\$	Year ended 31st March, 2000 HK\$	Five months ended 31st August, 2000 HK\$
Turnover	<u>4,712,933</u>	<u>16,535,431</u>	<u>18,056,479</u>
(Loss)/profit from operations	(713,467)	1,430,378	9,133,462
Finance cost	<u>—</u>	<u>(4,466)</u>	<u>(3,190)</u>
(Loss)/profit from ordinary activities before taxation	(713,467)	1,425,912	9,130,272
Taxation	<u>—</u>	<u>—</u>	<u>(1,200,000)</u>
(Loss)/profit attributable to shareholders	<u>(713,467)</u>	<u>1,425,912</u>	<u>7,930,272</u>
Basic (loss)/earnings per Share (<i>Note</i>)	<u>(0.18) cents</u>	<u>0.36 cents</u>	<u>1.98 cents</u>

Note: The calculation of the basic (loss)/earnings per share for each of the two years ended 31st March, 2000 and the five months ended 31st August, 2000 is presented here for information purposes only and based on the loss or profit attributable to shareholders during the respective periods and the assumption that 400,000,000 Shares had been in issue throughout the periods under review.

The Securities and Futures Commission has granted a waiver in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule of the Companies Ordinance. The Group is therefore only required to include in this prospectus the trading record, financial results and information covering the two financial years immediately preceding the issue of this prospectus — see the paragraph headed “Exemption from Compliance with the Companies Ordinance” under the section headed “Waivers from compliance with the GEM Listing Rules and the Companies Ordinance” of this prospectus.

OFFER STATISTICS

Market capitalisation (*Note 1*). approximately HK\$369 million

Adjusted net tangible asset value per Share (*Note 2*) HK\$0.11

SUMMARY

PROFIT FORECAST FOR THE YEAR ENDING 31ST MARCH, 2001 AND PRICE EARNINGS MULTIPLES

Forecast combined profit after taxation but before extraordinary items HK\$15 million

Prospective earnings per Share

(a) pro forma fully diluted (<i>Note 3</i>)	3.65 cents
(b) weighted average (<i>Note 4</i>)	3.99 cents

Based on an Issue Price of HK\$0.73 per Share	Based on an Issue Price of HK\$0.93 per Share
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Prospective price/earnings multiple

(a) pro forma fully diluted (<i>Note 5</i>)	20.0 times	25.5 times
(b) weighted average (<i>Note 6</i>)	18.3 times	23.3 times

Notes:

1. The calculation of market capitalisation of the Shares is based on an Issue Price of HK\$0.83 per Share (being the mid-point of the stated price range of the Issue Price of between HK\$0.73 and HK\$0.93 per Share) and 445,000,000 Shares in issue immediately after completion of the Placing and the Capitalisation Issue but takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or of any options granted or which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or of any Shares which may be allotted or issued or repurchased by the Company pursuant to the mandates referred to in the paragraph headed "Resolutions in writing of all shareholders of the Company passed on 12th February, 2001" in Appendix V to this prospectus.

2. The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to in the paragraph headed "Adjusted net tangible assets" under the section headed "Financial information" in this prospectus and on the basis of an aggregate of 445,000,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or of any options granted or which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or of any Shares which may be allotted or issued or repurchased by the Company pursuant to the mandates referred to in the paragraph headed "Resolutions in writing of all shareholders of the Company passed on 12th February, 2001" in Appendix V to this prospectus or otherwise.

If the Over-allotment Option is exercised in full or in part, the adjusted net asset value per Share will increase, while the earnings per Share will be diluted accordingly.

3. The calculation of the forecast earnings per Share on a pro forma fully diluted basis is based on the forecast combined profit after taxation but before extraordinary items for the year ending 31st March, 2001 and on the assumption that 445,000,000 Shares in issue immediately following completion of the Placing and the Capitalisation Issue had been in issue on 31st March, 2000. The calculation has been made after adjusting for the interest income that would have been earned if the net proceeds of the Placing had been received on 1st April, 2000 and interest had been earned thereon at a rate (net of tax) of 5% per annum for the whole year. It does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or of any options granted or which may be granted under the

SUMMARY

Pre-IPO Share Option Scheme or the Share Option Scheme or of any Shares which may be allotted or issued or repurchased by the Company pursuant to the mandates referred to in the paragraph headed “Resolutions in writing of all shareholders of the Company passed on 12th February, 2001” in Appendix V to this prospectus or otherwise.

4. The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast combined profit after taxation but before extraordinary items for the year ending 31st March, 2001 and a weighted average number of 376,096,764 Shares expected to be in issue during the year. It does not take into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or of any options granted or which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme or of any Shares which may be allotted or issued or repurchased by the Company pursuant to the mandates referred to in the paragraph headed “Resolutions in writing of all shareholders of the Company passed on 12th February, 2001” in Appendix V to this prospectus or otherwise.
5. The prospective price/earnings multiples on a pro forma fully diluted basis is based on the forecast earnings per Share on a pro forma fully diluted basis of approximately 3.65 cents.
6. The prospective price/earnings multiples on a weighted average basis is based on the forecast earnings per Share on a weighted average basis of approximately 3.99 cents.

INITIAL MANAGEMENT AND OTHER SHAREHOLDERS OF THE COMPANY

Set out below are the respective shareholdings in the Company (without taking into account Shares which may be taken up under the Placing) of each of the Initial Management Shareholders and other individual and corporate shareholders in the share capital of the Company immediately after completion of the Placing and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised):

	Date of initial shareholding in the Company	Approximate total investment cost (HK\$) (Note 6)	Number of Shares or attributable number of Shares held immediately after completion of the Placing and the Capitalisation Issue	Approximate average cost per Share (HK\$) (Note 6)	Approximate percentage of shareholding or attributable shareholding (%) (Note 12)	Moratorium period
Initial Management Shareholders						
Rax-Comm (Notes 1, 3 and 4)	(Note 1)	(Note 1)	248,495,174	(Note 1)	55.84	— 6 months (Note 3) — together with other Initial Management Shareholders not less than 35% of the issued Shares should be held during the second six month period from the Listing Date (Note 4)
Mr. Manho (Notes 2 and 3)	(Note 1)	(Note 1)	74,071,127	(Note 1)	16.65	— 6 months (Note 3) — together with other Initial Management Shareholders not less than 35% of the issued Shares should be held during the second six month period from the Listing Date (Note 4)
Mr. Cheng (Note 1)	(Note 1)	(Note 1)	256,975,674	(Note 1)	57.75 (Note 8)	— 6 months (Note 3) — together with other Initial Management Shareholders not less than 35% of the issued Shares should be held during the second six month period from the Listing Date (Note 4)

SUMMARY

	Date of initial shareholding in the Company	Approximate total investment cost (HK\$) (Note 6)	Number of Shares or attributable number of Shares held immediately after completion of the Placing and the Capitalisation Issue	Approximate average cost per Share (HK\$) (Note 6)	Approximate percentage of shareholding or attributable shareholding (%) (Note 12)	Moratorium period
Mr. H.C. Lau (Note 1)	(Note 1)	(Note 1)	42,614,254	(Note 1)	9.58 (Note 9)	— 6 months (Note 3) — together with other Initial Management Shareholders not less than 35% of the issued Shares should be held during the second six month period from the Listing Date (Note 4)
Ms. Lau (Note 1)	(Note 1)	(Note 1)	21,320,885	(Note 1)	4.79 (Note 10)	— 6 months (Note 3) — together with other Initial Management Shareholders not less than 35% of the issued share should be held during the record six month period from the Listing Date (Note 4)
Mr. H.K. Lau (Note 1)	(Note 1)	(Note 1)	248,495,174	(Note 1)	55.84 (Note 11)	— 6 months (Note 3) — together with other Initial Management Shareholders not less than 35% of the issued Shares should be held during the second six month period from the Listing Date (Note 4)
Strategic Shareholders (deemed as public Shareholders) undertaken to subject their holdings to moratorium period restriction						
Fullworth Asia Limited (Note 5)	2nd November, 2000	3,936,000	16,400,026	0.24	3.69	6 months (Note 7)
Sanbar Development Corporation S. A. (Note 5)	2nd November, 2000	3,936,000	16,400,026	0.24	3.69	6 months (Note 7)
Mr. Pruemm (Note 5)	2nd November, 2000	862,110	3,587,945	0.24	0.81	6 months (Note 7)
Mr. Roessner (Note 5)	2nd November, 2000	3,014,790	12,564,008	0.24	2.82	6 months (Note 7)
Other public Shareholders pursuant to the Placing			45,000,000	Issue Price	10.11	N/A

SUMMARY

Notes:

- The issued share capital of Rax-Comm is owned by the following persons:

Name of shareholders	Number of shares	Approximate percentage of shareholding (%)
Mr. H.K. Lau (a)	4,621	46.21
Mr. Cheng (a)	3,611	36.11
Ms. Lau (b)	858	8.58
Mr. H.C. Lau (b)	910	9.10
Total	10,000	100.00

(a) *Mr. H.K. Lau, and Mr. Cheng are executive Directors and Initial Management Shareholders. Mr. H.K. Lau is also one of the founders of the Group.*

(b) *Ms. Lau and Mr. H.C. Lau are Initial Management Shareholders.*

Each of the shareholders of Rax-Comm and Mr. Manho acquired their respective interests in ITE (HK), which became a wholly owned subsidiary of the Company pursuant to the Reorganisation, at different points of time since the establishment of the Group up to November 2000 when the Reorganisation became effective. Their direct and indirect shareholding interests in the Company representing Shares issued pursuant to the Reorganisation. Further details of the Reorganisation are set out in the paragraph headed “Group Reorganisation” in Appendix V to this prospectus.

Each of the beneficial owners of Rax-Comm has undertaken to the Company, the Stock Exchange and the Sponsor (on behalf of the Underwriters) that he/she will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her direct interest in Rax-Comm during the first twelve months period from the Listing Date.

- Mr. Manho is one of the founders of the Group, an executive Director and an Initial Management Shareholder.
- Each of the Initial Management Shareholders has undertaken to the Company, the Stock Exchange and the Sponsor (on behalf of the Underwriters) that he/she/it will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her/its direct or indirect interest in the Company during the first six months period from the Listing Date except such disposal is made pursuant to the stock borrowing arrangement.
- Each of the Initial Management Shareholders has undertaken to the Company, the Stock Exchange and the Sponsor (on behalf of the Underwriters) that he/she/it will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his/her/its direct or indirect interest in the Company during the second six month period from the Listing Date if such disposal would result in the Initial Management Shareholders together ceasing to control less than 35% of the voting rights at general meetings of the Company.
- Each of Fullworth Asia Limited, Sanbar Development Corporation S. A., Mr. Pruemmm and Mr. Roessner subscribed for 140,152 shares, 140,152 shares, 30,662 shares and 107,370 shares of HK\$1 each in ITE (HK) on 2nd November, 2000 at the consideration of HK\$3,936,000, HK\$3,936,000, HK\$862,110 and HK\$3,014,790 respectively.

SUMMARY

Save as disclosed in the prospectus, each of the shareholders of Fullworth Asia Limited and Sanbar Development Corporation S. A., Mr. Pruemmm and Mr. Roessner is independent of and not connected with any of the chief executive, directors, management shareholders, substantial shareholders of the Company and its subsidiaries or their respective associates.

6. All of the existing Shareholders were allotted and issued shares in ITE (BVI) in return for the disposal of their respective interests in ITE (HK), which became a wholly owned subsidiary of the Company pursuant to the Reorganisation. The shares in ITE (BVI) have been allotted and issued to them as part of the Reorganisation and are attributable to their respective shareholdings in ITE (HK). As part of the Reorganisation, one share of HK\$0.10 each in the Company was allotted and issued to Mr. Manho nil paid at the time of the incorporation of the Company; and the then existing shareholders of ITE (BVI) sold their shares in ITE (BVI) to the Company in exchange for which the Company allotted and issued to these shareholders certain shares of HK\$0.10 each in the Company and credited as fully paid the nil paid share of HK\$0.10 each in the Company held by Mr. Manho. These shares, including the one nil paid share of HK\$0.10, allotted and issued to them are in proportion to their respective shareholdings in ITE (BVI). Further details of the Reorganisation are set out in the paragraph headed “Group reorganisation” in Appendix V to this prospectus.
7. Each of Fullworth Asia Limited, Sanbar Development Corporation S. A., Mr. Pruemmm and Mr. Roessner has undertaken to the Company, the Stock Exchange and the Sponsor that it/he will not dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) its/his direct or indirect interests in the Company during the first six month period from the Listing Date.
8. These Shares comprise 248,495,174 Shares registered in the name of Rax-Comm and 8,480,500 Shares registered in his name. Mr. Cheng is interested in 36.11% of the issued share capital of Rax-Comm. Accordingly, Mr. Cheng is deemed to be interested in all the Shares in which Rax-Comm is interested.
9. These Shares represent 9.10% of the 248,495,174 Shares registered in the name of Rax-Comm and 20,001,194 Shares registered in his name. Mr. H.C. Lau is interested in 9.10% of the issued share capital of Rax-Comm.
10. These Shares represent 8.58% of the 248,495,174 Shares registered in the name of Rax-Comm. Ms. Lau is interested in 8.58% of the issued share capital of Rax-Comm.
11. These Shares comprise 248,495,174 Shares registered in the name of Rax-Comm. Mr. H.K. Lau is interested in 46.21% of the issued share capital of Rax-Comm. Accordingly, Mr. H.K. Lau is deemed to be interested in all the Shares in which Rax-Comm is interested.
12. Assuming that the Over-allotment Option is not exercised.

RISK FACTORS

There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed “Risk factors” of this prospectus. You should read this section carefully before you decide to invest in the Placing Shares.

The Directors consider that the operation of the Group is subject to a number of risk factors which can be categorised into (i) risk factors relating to the Group; (ii) risk factors relating to the industry; (iii) risk factors relating to Hong Kong; and (iv) risk factors relating to the Shares, which are summarised as follows:

Risk factors relating to the Group

- Limited operating history;
- Business Plan;
- Funding requirements of the Group;
- Dividends;
- New products and services;
- Fixed-price contracts;
- Reliance on key management;
- Income generated from projects;
- Manufacturing and availability of hardware and parts;
- Reliance on development tools and system hardware;
- Potential liability for defects or errors in the system solutions or hardware it delivers; and
- Intellectual property rights;

Risk factors relating to the industry

- Technological change;
- Competition; and
- Supply of technical professionals;

Risk factors relating to Hong Kong

- Exposure to political and economic risks in Hong Kong;

Risk factors relating to the Shares

- Fluctuations of the trading price of the Shares; and
- Dilution of the shareholders’ interests in the Company due to issue of the Shares to fund the Business Plan.

Please refer to the section headed “Risk factors” of this prospectus for more details.

DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday or Sunday) on which banks are open for business in Hong Kong
“Business Plan”	the business plan of the Group as formulated by the Directors and set out in the section headed “Future Plans and Prospects” in this prospectus
“BVI”	the British Virgin Islands
“Capitalisation Issue”	the issue of Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to in the paragraph headed “Resolutions in writing of all shareholders of the Company passed on 12th February, 2001” in Appendix V to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by Hongkong Clearing
“Companies Law”	the Companies Law (2000 Revision) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	ITE (Holdings) Limited, a company incorporated in the Cayman Islands with limited liability on 6th November, 2000
“Directors”	the director(s) of the Company
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“GEM website”	the internet website <i>www.hkgem.com</i> operated by the Stock Exchange for the purpose of GEM
“Greater China Region”	the PRC, Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC

DEFINITIONS

“Group”	the Company together with its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or the business operated by such subsidiaries or (as the case may be) their predecessor
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hongkong Clearing”	Hong Kong Securities Clearing Company Limited
“Initial Management Shareholders”	the initial management shareholders of the Company, namely Rax-Comm, Mr. H.K. Lau, Mr. Manho, Mr. Cheng, Mr. H.C. Lau and Ms. Lau
“Issue Price”	the price per Share (exclusive of brokerage and the Stock Exchange transaction levy) at which the Shares to be subscribed and issued pursuant to the Placing, to be determined as described in section headed “Structure of the Placing” in this prospectus
“ITE (BVI)”	ITE (BVI) Limited, a company incorporated in the BVI on 31st October, 2000 with limited liability and a wholly-owned subsidiary of the Company
“ITE Engineering”	ITE Engineering Limited, a company incorporated in Hong Kong on 1st September, 2000 with limited liability and a wholly-owned subsidiary of the Company
“ITE (HK)”	ITE Smartcard Solutions Limited 智控系統有限公司 (formerly known as CNA Limited 智控系統有限公司), a company incorporated in Hong Kong on 19th March, 1992 with limited liability and a wholly-owned subsidiary of the Company
“ITE Investment”	ITE Investment Limited, a company incorporated in Hong Kong on 4th September, 2000 with limited liability and a wholly-owned subsidiary of the Company
“Latest Practicable Date”	8th February, 2001, being the latest practicable date for the purpose of ascertaining certain information included in this prospectus
“Listing Date”	the date on which dealings in the Shares first commence on GEM
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) and which continues to be operated by the Stock Exchange in parallel with GEM and which, for the avoidance of doubt, excludes GEM
“Mr. Cheng”	Mr. Cheng Kwok Hung, an executive Director and one of the Initial Management Shareholders

DEFINITIONS

“Mr. H.C. Lau”	Mr. Lau Hoi Chuen, the elder brother of Mr. H.K. Lau and one of the Initial Management Shareholders
“Mr. H.K. Lau”	Mr. Lau Hon Kwong, Vincent, an executive Director, one of the founders of the Group and one of the Initial Management Shareholders
“Mr. Liu”	Mr. Liu Hoi Wah, an executive Director and the younger brother of Mr. H.K. Lau
“Mr. Manho”	Mr. George Roger Manho, an executive Director, one of the founders of the Group and one of the Initial Management Shareholders
“Mr. Pruemmm”	Mr. Hans-Georg-Theodor Pruemmm, a Shareholder. Further details of Mr. Pruemmm are set out under the paragraph headed “Strategic investors” of the section headed “General overview of the Group” of this prospectus
“Mr. Roessner”	Mr. Holger Hubert Roessner, a Shareholder. Further details of Mr. Roessner are set out under the paragraph headed “Strategic investors” of the section headed “General overview of the Group” of this prospectus
“Ms. Lau”	Ms. Lau Yuet Ping, the elder sister of Mr. H.K. Lau and one of the Initial Management Shareholders
“Nat-Id”	Nat-Id Limited, a company incorporated in Hong Kong with limited liability on 1st September, 2000 and a wholly-owned subsidiary of the Company
“Octopus”	the smartcard system adopted by the public transportation system in Hong Kong and operated by Creative Star Company Limited, a subsidiary of MTR Corporation Limited, for automatic fare collection
“Over-allotment Option”	the option granted by the Company to the Sponsor exercisable by the Sponsor to require the Company to allot and issue at the Issue Price the Over-allotment Shares, representing 15% of the number of the Placing Shares initially being offered under the Placing
“Over-allotment Shares”	up to an aggregate of 6,750,000 Placing Shares which may be allotted and issued by the Company pursuant to the exercise of the Over-allotment Option
“Placing”	the conditional placing of the Placing Shares for cash at the Issue Price subject to the terms and conditions stated herein
“Placing Shares”	the 45,000,000 new Shares conditionally placed by the Underwriters under the Placing

DEFINITIONS

“PRC” or “China”	the People’s Republic of China which, for the purposes of this prospectus, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Pre-IPO Share Option Scheme”	the share option scheme adopted by the Company on 12th February, 2001 the principal terms are summarised in the section headed “Pre-IPO Share Option Scheme” in Appendix V to this prospectus
“Price Determination Agreement”	the agreement to be entered into between the Company and Vickers Ballas (for itself and on behalf of the Underwriters) for determining the Issue Price
“Price Determination Date”	the date, expected to be on or about 16th February, 2001, or on a date which is not later than 20th February, 2001, on which the Issue Price will be fixed for the purpose of the Placing
“R&D”	research and development
“Rainbow Spirit”	Rainbow Spirit Limited, a company incorporated in Hong Kong with limited liability on 29th September, 2000 and a wholly-owned subsidiary of the Company
“Rax-Comm”	Rax-Comm (BVI) Limited, a company incorporated in the BVI with limited liability on 6th November, 2000 and the controlling shareholder of the Company
“Reorganisation”	the reorganisation of the Group in preparation for the listing of the Shares on GEM, particulars of which are set out in the paragraph headed “Group reorganisation” in Appendix V to this prospectus
“RF Tech”	RF Tech Limited, a company incorporated in Hong Kong with limited liability on 4th September, 2000 and a wholly-owned subsidiary of the Company
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Share Option Scheme”	the share option scheme conditionally adopted by the Company on 12th February, 2001, the principal terms of which are summarised in the section headed “Share Option Scheme” in Appendix V to this prospectus
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Underwriters”	Vickers Ballas, KGI Asia Limited and Celestial Capital Limited
“Underwriting Agreement”	the placing and underwriting agreement relating to the Placing dated 15th February, 2001 and entered into between the Company, the executive Directors, the Initial Management Shareholders, the Sponsor and the Underwriters, particulars of which are set out in the section headed “Underwriting” in this prospectus
“United States”	The United States of America
“Vickers Ballas” or “Sponsor”	Vickers Ballas Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), a GEM approved sponsor and the sponsor to the Placing
“DM”	Deutsch marks, the lawful currency of Germany
“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“US\$” or “US dollars”	United States dollars, the lawful currency of the United States

Unless otherwise specified in this prospectus, amounts denominated in US\$ have been translated, for the purpose of illustration only, into Hong Kong dollars at a rate of HK\$7.80 = US\$1.00. No representation is made that any amounts in US\$ or Hong Kong dollars could have been or could be converted at the above rate or at any other rates or at all.

GLOSSARY

The glossary contains explanations of certain terms used in this prospectus in connection with the Group and its business. The terms and their meanings may not correspond to standard industry meaning or usage of these terms.

“application”	a functional system made up of software or hardware, or combination of both, that performs a specific task
“ASP”	an acronym for “application services provider”
“barcode card”	card on which parallel bars and spaces of varying width are printed to store data
“contact smartcard”	smartcard functioned by physical contact with a smartcard reader
“contactless smartcard”	smartcard that can communicate with a reader by means of radio frequency signal through the air
“ELV”	an acronym for “extra-low voltage”
“ERP”	an acronym for “enterprise resources planning”
“e-banking”	banking services which allow users to perform a wide range of transactions on their linked bank accounts through the Internet
“e-commerce”	the use of the Internet to transmit business information and transact commercial activities
“e-infrastructure”	infrastructure for execution of e-commerce
“e-payment”	the use of the Internet or other electronic means to effect payment
“e-shopping”	the use of the Internet to purchase merchandise
“encryption”	the process of scrambling a message so that a key, held only by authorised recipients, is needed to unscramble and read the message
“GSM”	an acronym for “Global Systems for Mobile Telecommunications”
“intelligent facility management”	the control and monitoring of various aspects of facility through an integrated system
“Internet”	the world’s largest international network of interconnected computers that links computers together and allows data to be transferred between computers using prescribed protocols

GLOSSARY

“Intranet”	a private network based on Internet protocols, and designed for information management within an organisation
“IT”	an acronym for “information technology”
“LAN”	an acronym for “local area network”, a network that typically interconnects devices over a geographically small area, normally confined to one building or a campus
“Linux”	a clone of UNIX operating system developed for microprocessors
“M&E”	an acronym for “mechanical and engineering”
“m-commerce”	the use of device for wireless communication to transmit business information and transact commercial services
“magnetic stripe”	layer of ferromagnetic material bonded to a non-magnetic carrier such as plastic cards which carries read-only information
“Mifare”	a contactless smartcard technology invented by Philips Semiconductors
“MRP”	an acronym for “manufacturing resources planning”
“networking”	a technique for distributing data processing functions through communication facilities (the interconnection of two or more networks)
“operating system” or “OS”	a master control program for a computer that manages the computer’s internal functions as well as the peripheral devices
“PC”	personal computer
“platform”	a computing environment which allows the development and execution of computer applications
“protocol”	a set of rules on standards designed to enable computers to connect with one another and to exchange information
“reader”	device for reading and writing data contained in a smartcard
“RFID”	radio frequency identification, a technology for data acquisition by way of radio frequency between transponders and host system
“SIM”	subscriber identity module

GLOSSARY

“smartcard”	plastic card with embedded microprocessor containing an operating system and erasable non-volatile memory
“smartmeter”	a reader with built-in features for measurement
“software”	A system or utility or application program expressed in a computer readable language
“software component” or “component”	segments of computer programmes with well-defined interfaces, which constitute building blocks for layer program development
“system integration”	a process to integrate different computers, devices and application software packages together to provide a solution
“WAN”	an acronym for “wide area network”, a communication network that covers a geographical area, such as a state or a country

RISK FACTORS

Potential investors should carefully consider all the information set out in this prospectus and in particular should evaluate the following risks before deciding to invest in the Company.

RISK FACTORS RELATING TO THE GROUP

Limited operating history

The Group commenced operation in 1997. Since its operation, the Group has been principally engaged in the provision of smartcard solution for campus environment and residential/commercial development. As set out in the Business Plan, the Group intends to further expand the scope of its business by providing solution in applications which the Group has not undertaken before. To date, the Group has not encountered any problems in delivering its services to its clients according to their requirements. However, there is no assurance that it will be able to meet the requirements of its prospective or existing clients in the future.

Business Plan

The Group relies on market information, certain assumptions and obtaining of certain projects (including the Octopus card project and the Hong Kong Smart ID project, the relevant agreements of which have not been reached as at the Latest Practicable Date) to develop its business strategies and the Business Plan as set out under the paragraph headed “Statement of business objectives” of this prospectus. There is a possibility that these assumptions may be wrong. Further, any expectation about the Group’s success in obtaining contracts relating to new smartcard solutions may not materialise during the intended period of time or at all. In such event, the Group’s future earnings and the Group’s business objectives will be adversely effected.

Funding requirements of the Group

Without taking into account of the estimated cashflow to be generated from the operation of the Group’s business, the Directors believe that the net proceeds from the Placing will not be sufficient to meet all the funding requirements of the Business Plan if all material aspects of the business objectives and the Business Plan materialise and progress according to the implementation plan as described in the section headed “Future Plans and Prospects” of this prospectus.

As set out in the section headed “Future Plans and Prospects”, the Directors estimate that the cost of implementation of the Business Plan during the period ending 31st March, 2003 will be approximately HK\$56.5 million. Based on such scheduled cost of implementation and the Directors’ intention to apply the net proceeds of the Placing to finance the Business Plan before utilising other financial resources, the net proceeds will be utilised by 31st March, 2002. To achieve the Group’s business objectives and materialise all the implementation plans, the Group has to be able to generate sufficient funds from operations or by means of other external financing to meet the Group’s remaining requirement of approximately HK\$32.5 million (after the estimated net proceeds of approximately HK\$24 million of the Placing based on the lower end of the stated price range of HK\$0.73 per Share). Should the Group be unable to obtain additional funds in the future, the implementation of the Business Plan will be adversely affected and some of the intended projects or developments may have to be delayed, aborted or abandoned.

Dividends

Certain members of the Group declared and paid dividends of approximately HK\$3.4 million for the six months ended 30th September, 2000. Such dividend payment represented approximately 40% of the Group's net profits attributable to shareholders for the same period. Payment of such dividend was financed and fully paid by internal resources of the Group. However, other than the interim dividend of approximately HK\$3.4 million paid for the six months ended 30th September, 2000, the Directors presently do not intend to declare any dividend for the year ending 31st March, 2001. There is no assurance that the Group will declare or pay dividends to its shareholders following the listing of Shares on the Stock Exchange and the above-mentioned dividend payments should not, therefore, be used as a reference or basis by which future dividend payments on the Shares are determined.

New products and services

The smartcard industry is characterised by rapid technological changes, the frequent development and enhancement of services and products and new emerging industry standards. If the Group is unable to develop and introduce new services and products, or enhance its existing services or products in a timely manner in response to changing market conditions or client requirements, or if its new products and services do not achieve market acceptance, the Group's business will be harmed. The enhancement of its existing services and products and the development of new services and products entail significant technological risks. The Group cannot assure investors that it will succeed in using new technologies effectively, adapting its services and products to emerging industry standards, developing, introducing and marketing service and product enhancements, or introducing new services and products. In addition, the Group cannot assure investors that it will not experience any difficulties that could delay or prevent the successful development or marketing of these services and products, nor that any such new service and product enhancements will adequately meet the requirements of the marketplace and achieve market acceptance.

Fixed-price contracts

All of the Group's existing contracts are on a fixed-price basis, rather than on a time-and-material basis. The price of a particular contract depends on a variety of factors such as complexity, labour and material required and competition for the projects. Therefore, there is no fixed price range. The Group also expects to continue to enter into fixed-price contracts in the future. Although most of the contracts entered into by the Group contain a price adjustment mechanism to reflect any additional time and material expended to a certain extent, if the Group fails to estimate costs on fixed-price contracts accurately or if it encounters unexpected problems, its financial performance will be adversely affected.

Reliance on key management

As at the Latest Practicable Date, the Company has four executive Directors, who are responsible for the implementation of the Group's business plan and overseeing the daily operation of the Group. The performance of the Group depends, to a significant extent, on the services of its key management, and the loss of any of whom may adversely affect the Group's performance. There is no assurance that the Group will be able to prevent its key management from leaving if more attractive terms are offered

RISK FACTORS

by others to such key management. If any of such key management should leave the employ of the Group and the Group is not able to recruit suitable candidates to fill the positions of those key management, the Group's operations will be adversely affected.

Income generated from projects

The Group's income is primarily generated from fees on a project basis. On average, the Group's projects can be completed in six months and the duration of the projects undertaken by the Group during the two years ended 31st March, 2000 and five months ended 31st August, 2000 ranged from about three months to nine months. These projects generally vary in size and scope. A client that accounts for a significant portion of the Group's income for a particular period may not generate any income to the Group in subsequent periods. In addition, there is no assurance that a client will retain the Group in the future for maintenance and enhancement services or for new projects of such client. Any decrease in the number or size of the Group's projects could adversely affect its profitability and prospects.

Manufacturing and availability of hardware and parts

While the Group is principally engaged in the research, design and development of smartcard solutions, the Group's operations also consist primarily of final assembly, testing and quality control of hardware and parts. For each of the two years ended 31st March, 2000 and the five months ended 31st August, 2000, the Group's five largest suppliers, in aggregate, accounted for approximately 75.5%, 52.8% and 44.9% respectively of the total purchases of the Group, and the largest supplier accounted for approximately 22.9%, 12.8% and 13.9% respectively during the same periods. There can be no assurance that the Group may not experience shortage of certain hardware or parts which may have an adverse effect on the Group's business and operating results.

Reliance on development tools and system hardware

The Group utilises development tools and system hardware from independent vendors to develop its solutions. Should the products of these vendors fail to function properly or become short in supply, the Group's services could be adversely affected. In addition, certain customers may specify the kind of system hardware to be used in a system to be built by the Group, which may reduce the flexibility of the Group to choose appropriate products. This in turn may affect the operations of the Group.

Potential liability for defects or errors in the system solutions or hardware it delivers

If system solutions or hardware developed and delivered by the Group contain defects or errors which adversely affect the client's business operations or the performance of its hardware 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. There can be no assurance that there will not be any such claims against the Group in the future. The Group does not maintain any insurance against such liability but seeks to limit its liability by incorporating limited warranty provisions in its contracts with its clients. There is no assurance that such provisions are enforceable and the Group will remain liable for its gross negligence or wilful default.

RISK FACTORS

Intellectual property rights

The Group's applications are not patented and the Group relies on a combination of non-disclosure, confidentiality and other contractual agreements with its directors, employees and other third parties, as well as privacy, trade secret or copyright laws, to protect and limit access to and distribution of the intellectual property, confidential information and technical know-how that the Group has developed or acquired. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use the Group's intellectual property, confidential information or technical know-how without authorisation, or develop similar applications independently. In addition, there are countries where effective copyright, patent, trademark and trade secret protection may be unavailable or limited. Policing unauthorised use of its proprietary technologies is difficult and there is no assurance that the steps taken by the Group will prevent misappropriation or infringement of the Group's technologies. In addition, litigation may be necessary in the future to enforce the Group's intellectual property rights, protect the Group's trade secrets or determine the validity and scope of the proprietary rights of others, all of which could result in substantial costs and diversion of the Group's resources and its management's time and, as a result, significantly harm the Group's business.

RISK FACTORS RELATING TO THE INDUSTRY

Technological change

The smartcard industry is characterised by rapid technological changes, the frequent development and enhancement of services and products and new emerging industry standards. The Group's success will depend, in part, on its ability to respond to technological advances. The Group may not be successful in responding quickly, cost-effectively and sufficiently to these developments. If the Group is unable, for technical, financial or other reasons, to adapt in a timely manner to technological advances, it may not be able to compete effectively and the business of the Group would be adversely affected.

Competition

The smartcard market is competitive. The Directors are aware of the fact that its competitors may deliver services and products that are similar to those of the Group at lower prices. Furthermore, the Directors also envisage that quotations for projects may be driven down due to competition. There is no guarantee that the Group will be able to tender for future projects at the existing profit margin. Such competitive environment may adversely affect the Group's profitability.

Supply of technical professionals

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 technical 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 technical professionals is intense and there can be no assurance that the Group will be able to retain or attract technical professionals with the right calibre in the future.

RISK FACTORS

RISK FACTORS RELATING TO HONG KONG

Exposure to political and economic risks in Hong Kong

All of the Group's operations are located in Hong Kong, which is a special administrative region of the PRC, with its own government and legislature. The Joint Declaration between the PRC and the British Government and the Basic Law provide that Hong Kong will have a high degree of legislative, judicial and economic autonomy. Since the resumption of sovereignty over Hong Kong by the PRC on 1st July, 1997, Hong Kong has enjoyed a high degree of autonomy so far. However, there is no assurance that the present political and economic environment in Hong Kong will remain unchanged. Future developments in the political and economic environment in Hong Kong may have adverse effects on the business and financial conditions of the Group.

RISK FACTORS RELATING TO THE SHARES

Fluctuations of the trading price of the Shares

The trading price of the Shares may fluctuate in response to a number of events including quarterly variation in the Group's operating results, new services launched by the Group, its direct competitors or companies listed on GEM, companies listed on the Main Board and/or other stock exchanges having comparable businesses with that of the Group, general performance of the GEM, the Main Board or other equity capital markets, changes in recommendations or financial estimates by analysts and investors' general perception on the Group's future prospects. In addition, there is no guarantee that there will be a liquid market in the Shares.

Prospective investors should be extremely cautious in considering investing or dealing in the Shares. Prospective investors are also recommended to read carefully the statements in the section headed "Characteristics of GEM" of this prospectus.

Dilution of the shareholders' interests in the Company due to issue of the Shares to fund the Business Plan

The Group may need funds, in addition to the net proceeds from the Placing to be received by the Group, to finance the expansion and further development of its existing business or the acquisitions as set out in the Business Plan. Sources of additional financing for such expansion and acquisitions include internally generated funds, bank borrowings, issuance of debt securities and equity financings. The Group may issue new Shares to satisfy the consideration payable for the acquisitions of businesses in the implementation of the Business Plan if the Directors consider that it is in the interests of the Company and its shareholders for so doing. If the Company allots and issues new Shares other than on a pro rata basis to its then existing shareholders, the shareholding interest percentage in the Company of the then existing shareholders of the Company may be diluted correspondingly.

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

For the purpose of the listing of the Shares on GEM, the Company has sought a number of waivers in relation to certain requirements under the GEM Listing Rules and the Companies Ordinance. Details of such waivers are described below.

WAIVER FROM COMPLIANCE WITH THE GEM LISTING RULES

Waivers on moratorium period

The GEM Listing Rules require every initial management shareholder of a listing applicant to undertake to the listing applicant and the Stock Exchange not, for a period of two years from the date of commencement in dealing in the relevant securities (as defined in the GEM Listing Rules), save as provided in Rule 13.17 of the GEM Listing Rules, to dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into any agreement to dispose of) any direct or indirect interest in relevant securities.

Pursuant to Rule 13.16(2) of the GEM Listing Rules, the Company shall procure, inter alia, that each of the Initial Management Shareholders undertakes to the Company and the Stock Exchange that, for a period of two years from the Listing Date, he, she or it will not, save as provided in Rule 13.17 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his, her or its direct or indirect interest in the relevant securities.

The Company has applied to, and has obtained from, the Stock Exchange a waiver from strict compliance with Rule 13.16(2) of the GEM Listing Rules to reduce the two-year moratorium period imposed on each of the Initial Management Shareholders to a six-month moratorium period subject to the conditions that (1) each of the existing shareholders of Rax-Comm, the controlling shareholder of the Company, will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) his or her shareholding in Rax-Comm in the first twelve-month period from the Listing Date; and (2) each of the Initial Management Shareholders will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any Shares in the second six-month period from the Listing Date if such disposal would result in the Initial Management Shareholders together ceasing to have control 35% or more of the voting rights at general meetings of the Company.

Stock Borrowing Arrangement

In order to facilitate settlement of over-allocations in connection with the Placing and the distribution of Shares thereunder, Vickers Ballas may borrow up to 6,750,000 Shares from Rax-Comm under a stock borrowing arrangement pending exercise of the Over-allotment Option and/or acquisition of Shares in the secondary market. As the Shares held by Rax-Comm are subject to the moratorium period as described above, **an application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules (as explained above) for the purpose of implementing the stock borrowing arrangement.** A waiver has been granted by the Stock Exchange on condition that:

- (i) the stock borrowing arrangement with Rax-Comm may only be effected by Vickers Ballas for settlement of over-allocations in connection with the Placing;

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

- (ii) the maximum number of Shares to be borrowed from Rax-Comm must not exceed the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;
- (iii) the same number of Shares borrowed shall be returned to Rax-Comm not later than three business days following the earlier of (a) the last day on which the Over-allotment Option may be exercised or (b) the day on which the Over-allotment Option is exercised in full; and
- (iv) the returned Shares will be placed in escrow as soon as practicable with an escrow agent acceptable to the Stock Exchange.

This stock borrowing arrangement will be effected in compliance with all applicable laws and regulatory requirements. No benefits nor payments will be made to Rax-Comm in relation to such stock borrowing arrangement.

Share Option Scheme

The GEM Listing Rules require that the total number of Shares subject to the Share Option Scheme and any other schemes (including the Pre-IPO Share Option Scheme) (“Scheme Limit”) must not, in aggregate exceed 10% of the issued share capital of the issuer from time to time. **As a result of an application made on behalf of the Company, the Stock Exchange has granted a waiver from strict compliance with Rule 23.03(2) of the GEM Listing Rules. On this basis, the Company is allowed to increase the Scheme Limit to 30% of the issued share capital of the Company from time to time. Such waiver has been granted by the Stock Exchange subject to the following conditions:**

- (i) the total number of Shares which may be issued pursuant to the exercise of options under the Share Option Scheme and any other schemes must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time;
- (ii) subject to (i) above, the Company may seek approval by shareholders in general meeting to grant options under the Share Option Scheme and any other schemes representing up to an aggregate of 10% of the issued share capital of the Company at the time of approval (“General Mandate Limit”);
- (iii) subject to (i) above, the Company may seek separate shareholders’ approval in general meeting to grant options beyond the General Mandate Limit to participants specified by the Company before such approval is sought;
- (iv) the grant of options to a connected person (as defined in the GEM Listing Rules) shall be approved by all independent non-executive Directors of the Company;
- (v) the grant of options to a connected person who is also a substantial shareholder (as defined in the GEM Listing Rules) or any of his associates, where the proposed grant of options, when aggregated with the options already granted to that connected person in the past 12 months period, would entitle him to receive more than 0.1% of the total issued shares of the Company for the time being and the value of which is in excess of HK\$5 million, shall be approved by shareholders in general meeting. Apart from the connected person involved,

WAIVERS FROM COMPLIANCE WITH THE GEM LISTING RULES AND THE COMPANIES ORDINANCE

all other connected persons of the Company shall abstain from voting in such general meeting (except where any such connected person intends to vote against the proposed grant);

- (vi) for the purposes of approving the proposed grant of options as described under subparagraphs (iii) and (v) above, the Company shall issue a circular to shareholders explaining the proposed grant, disclosing the number and terms of the options to be granted and containing a recommendation from the independent Directors on whether or not to vote in favour of the proposed grant; and
- (vii) the following additional disclosures will be made in the annual and interim reports of the Company:
 - (a) details of options granted to each Director and all the other participants; and
 - (b) a summary of the major terms of each share option scheme approved by the shareholders of the Company.

EXEMPTION FROM COMPLIANCE WITH THE COMPANIES ORDINANCE

Waiver on disclosure of past financial information

Under paragraph 27 of Part I of the Third Schedule to the Companies Ordinance, a listing applicant is required to set out in its listing document a statement as to the gross trading income or sales turnover during the three preceding years. Paragraph 31 of Part II of the Third Schedule to the Companies Ordinance requires a listing applicant to set out a report, prepared by its auditors and reporting accountants, containing its financial information in respect of each of the three financial years immediately preceding the issue of the listing document.

The Company has sought a certificate of exemption from the Securities and Futures Commission from strict compliance with Section 342(1) of the Companies Ordinance pursuant to which a prospectus is required to contain matters specified in Part I of the Third Schedule to the Companies Ordinance and reports specified in Part II of the Third Schedule, on the ground that full compliance with the Section 342(1) would be unduly burdensome for the Company.

The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, save as disclosed herein, up to the date of issue of this prospectus, there has been no material adverse change in the financial position of the Group since 31st August, 2000, and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

The Securities and Futures Commission has granted an exemption from strict compliance with Section 342(1) of the Companies Ordinance, in particular paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule of the Companies Ordinance, so that the Group is only required to include in this prospectus its trading records, financial results and information covering the two financial years immediately preceding the issue of this prospectus.

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, the Securities (Stock Exchange Listing) Rule 1989 of Hong Kong and the GEM Listing Rules for the purpose of giving information with regard to the Group. 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 is 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.

FULLY UNDERWRITTEN

The Company is offering 45,000,000 Placing Shares for subscription by way of Placing (assuming the Over-allotment Option not exercised) at the Issue Price. The Placing is sponsored by the Sponsor and is fully underwritten by the Underwriters. Please refer to the section headed "Underwriting" of this prospectus for more details.

PLACING SHARES TO BE OFFERED TO THE HONG KONG PUBLIC ONLY

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. This prospectus is not an offer or invitation in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation. In particular but without limitation to the following:

United States

The Placing Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act"), or under any securities regulatory authority of any jurisdiction of the United States and may not be offered or sold in the United States except in a transaction not subject to, or in accordance with an applicable exemption from, the registration requirements of the U.S. Securities Act. It is intended that the Placing Shares will be offered and sold by the Underwriters only to accredited investors pursuant to Regulation D of the U.S. Securities Act and the Shares to be allotted and issued to such investors shall be stamped or otherwise imprinted with a legend noting that the Placing Shares have not been registered under the U.S. Securities Act or applicable state securities laws and may not be sold, transferred or otherwise disposed of unless so registered or pursuant to an available exemption from registration.

Singapore

This prospectus has not been registered with the Registrar of Companies in Singapore. Accordingly, this prospectus may not be issued, circulated or distributed in Singapore nor may any of the Placing Shares be offered for subscription or sold, directly or indirectly, nor may an invitation or offer to subscribe for any Placing Shares be made (i) to persons in Singapore other than under circumstances in which such offer or sale does not constitute an offer or sale of the Placing Shares to the public in Singapore or (ii) to any member of the public in Singapore other than pursuant to, and in accordance with the conditions of, an exemption invoked under Division 5A of Part IV of the Companies Act, Chapter 50 of Singapore and to persons to whom the Placing Shares will be offered or sold under such exemption. Furthermore, no advertisement may be made offering or calling attention to an offer or intended offer of the Placing Shares to the public in Singapore.

Taiwan

The Placing Shares have not been and will not be registered with the Securities and Futures Commission of Taiwan pursuant to the Taiwan Securities and Exchange Law. Accordingly, none of the Placing Shares may be offered for subscription, purchase or sold, directly or indirectly in Taiwan.

Cayman Islands

No offer of Shares may be made to the public in the Cayman Islands.

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

Each person acquiring the Placing Shares will be required to, or is deemed by his acquisition of the Placing Shares to, confirm that he is aware of the restrictions on offers of the Placing Shares described in this prospectus and is not under any restrictions to apply for or to be allotted any Placing Shares, and that the Company and other parties involved in the Placing are not subject to laws and regulations (whether or not having the force of laws) of any place outside Hong Kong that impose a restriction against or a requirement on them in connection with such person; application for any Placing Shares or the allotment of any Placing Shares to him.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee for listing of and permission to deal in its existing issued Shares and the Shares to be issued pursuant to the Capitalisation Issue and the Placing (including any Shares to be issued pursuant to the exercise of the Over-allotment Option) and the Shares which may be issued upon the exercise of options granted or to be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme. Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of 20% of the issued share capital of the Company in the hands of the public.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

No part of the Company's share or loan capital is listed or dealt with on the Main Board or any other stock exchange. At present, the Company is not seeking or proposing to seek listing of or permission to deal in any part of its share or loan capital in any other stock exchange.

Under section 44B(1) of the Companies Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM 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 for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding or dealing in the Shares, you should consult an expert.

The Company, the Sponsor, the Underwriters, all of their respective directors, agents or advisers or any other parties involved in the Placing do not accept responsibility for any tax effects on, or liability of, any person resulting from subscribing for, purchasing, holding or dealing in the Shares.

STAMP DUTY

All the Shares will be registered on the Hong Kong branch register of members of the Company in Hong Kong in order to enable them to be traded on GEM. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on GEM. Dealings in Shares registered on the Company's branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

STRUCTURE OF THE PLACING

Details of the structure of the Placing, including conditions of the Placing, are set out in the section headed "Structure of the Placing" of this prospectus.

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Lau Hon Kwong, Vincent	Flat C, 15th Floor Block 9, Site 9 Whampoa Garden Hungohm Kowloon Hong Kong	British
George Roger Manho	Unit D, 7th Floor, Block 1 Serenity Park 18 Tai Po Tau Road Tai Po New Territories Hong Kong	Australian
Cheng Kwok Hung	Flat G, 5th Floor Block 2, Site 9 Whampoa Garden Hungohm Kowloon Hong Kong	Australian
Liu Hoi Wah	Flat C, 8th Floor Helena Garden 257–263 Prince Edward Road West Kowloon Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Lee Peng Fei, Allen	House 11, Windsor Park Phase 1, Ma Ling Path Kau To Sha Tin New Territories Hong Kong	Chinese
Tsao Kwang Yung, Peter	Flat A1 8 Caldecott Road Kowloon Hong Kong	Chinese

PARTIES INVOLVED IN THE PLACING

Sponsor and Lead Manager

Vickers Ballas Capital Limited
19th Floor, Far East Finance Centre
16 Harcourt Road
Admiralty
Hong Kong

Co-Managers

KGI Asia Limited
27th Floor, Asia Pacific Finance Tower
Citibank Plaza
3 Garden Road
Central
Hong Kong

Celestial Capital Limited
22nd Floor, The Center
99 Queen's Road Central
Hong Kong

Legal advisers to the Company

As to Hong Kong Law:
Chiu & Partners
41st Floor, Jardine House
1 Connaught Place
Central
Hong Kong

As to Cayman Islands Law:
Conyers Dill & Pearman, Cayman
Zephyr House
Mary Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Legal adviser to the Underwriters

Siao, Wen and Leung
15th Floor, Hang Seng Building
77 Des Voeux Road Central
Hong Kong

Reporting accountants

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central
Hong Kong

PARTIES INVOLVED IN THE PLACING

Property valuer

Greater China Appraisal Limited
Room 2407
Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

CORPORATE INFORMATION

Registered office	Zephyr House Mary Street P.O. Box 2681 George Town Grand Cayman British West Indies
Head office and principal place of business	Room 2001, Stelux House 698 Prince Edward Road East San Po Kong Kowloon
Company secretary	Liu Hoi Wah, ACA, AHKSA
Qualified accountant	Liu Hoi Wah, ACA, AHKSA
Compliance officer	Lau Hon Kwong, Vincent
Audit committee	Lee Peng Fei, Allen (<i>Chairman</i>) Tsao Kwang Yung, Peter Liu Hoi Wah
Authorised representatives	Lau Hon Kwong, Vincent Liu Hoi Wah
Principal banker	The National Commercial Bank Limited 50–52 Mongkok Road Kowloon Hong Kong
Principal share registrar and transfer office	Bank of Bermuda (Cayman) Limited 36C Bermuda House British American Centre Dr. Roy's Drive George Town Grand Cayman Cayman Islands British West Indies
Hong Kong branch share registrar and transfer office	Hong Kong Registrars Limited 2nd Floor, Vicwood Plaza 199 Des Voeux Road Central Hong Kong

The information presented in this section is derived from various private and/or publicly available documents. The information has not been prepared or independently verified by the Company, the Sponsor or any of their respective advisers or affiliates.

SMARTCARD

In a broad sense, a smartcard may be seen to be functioning as a miniature computer embedded in plastic in the size of a typical credit card, with data storage and processing capability. With the microchip embedded, highly sophisticated security features can be used to protect the data. Smartcards are the technologically advanced substitute of magnetic stripe and barcode cards. They range from microchip based memory cards to highly sophisticated programmed and programmable cards. There are two generic types of smartcards, namely contact and contactless cards. Contact smartcards function by physical contact with a reader while contactless smartcards communicate with a reader by means of radio frequency signal through the air. Today, the same miniature computer within the smartcards can also be embedded in other everyday objects, such as key rings, watches, glasses, rings or earrings.

The major advantages of smartcards over traditional barcode card and magnetic stripe card (such as those used as traditional credit cards) include increased storage capabilities, security, reliability, durability and diverse functionality. Smartcard provide data portability and convenience, which can help business evolve and expand their products and services. Service providers such as banks, telecommunication network operators and airlines are able to tailor their offerings to better differentiate their brands with smartcard technology.

With more advanced technology and lowered unit cost due to increasing production volume, substitution of magnetic stripe and barcode card by smartcard is accelerating. One example of such substitution is the replacement of the magnetic stripe card by smartcard as a form of credit card. Since the early 1990s, Mondex International Ltd., a subsidiary of MasterCard International Incorporated, has been developing the Mondex smartcard which is one of the electronic cash propositions in the marketplace today. In 1997, Bank of America and Visa International Service Association (“Visa”) announced a pilot program to test out purchases over the Internet using the stored-value Visa Cash chip card. In 1998, Visa opened its platform for smartcards in the US and subsequently launched the “smart Visa card” across the world. In 2000, HSBC Holdings plc conducted trial application and indicated its intention to upgrade its debit cards to use the smartcard technology in Britain as part of an industry-wide initiative. American Express Company also launched the smartcard form of credit card in the US in 1999.

Applications of smartcard technology

There are a number of commonly adopted smartcard applications including identification, automatic fare collection, access control and security. These applications can be used in many industries such as telecommunication (SIM cards for GSM digital cellular phone), transportation and banking. The processing capability of smartcard also allows integrated services. Such features of smartcard derive enormous applications. For example, airlines can use smartcard as an electronic ticket for payment and to record clients’ services preference. The smartcard technology can also be used on an institutional level such as social security and national ID. Until recently, smartcards have been mainly deployed in the markets mentioned above, and are confined to a single card that works

with a single issuer or provider. However, with the advancement of technology, several functions such as e-purse, identification, loyalty programs and phone SIM could now be combined into one single multi-purpose card. These cards can also be updated from time to time as service providers enhance applications with more functionality or new service applications.

Intelligent facility management system

Intelligent facility management system is a system designed to integrate all the systems and networks within a complex into one single computerised system. It provides management of a complex with easy and fast access to critical information for effective decision making. In general terms, the intelligent facility management system includes all those devices used to perform facility related tasks such as lighting, energy, security and access control, environmental monitoring, and water and sewage metering. Nowadays, smartcard applications are integrated into intelligent facility management system to enhance security and portability of information within a facility.

Contactless smartcard and RFID technology

Contactless smartcard system is principally built on RFID technology, which enables information to be exchanged at a distance and mainly consists of radio tags, readers and encoders. Improved technology and lowered prices are making RFID systems a viable alternative to other automatic identification technologies. In addition, the radio tags can be used to combine the responsibilities of bar code, anti-theft functionality and RFID into one application. Such application could improve the competitive edge of products as it accelerates the scanning and identifying process in logistics, increases the reliability in automated processes and enhances the functions of security. For example, RFID technology makes it easier to automate processes and improves object tracking. It also assists in determining the location of tagged objects in real time. There are four major applications for RFID technology, namely security and access control, manufacturing and logistics management, transportation, and animal tracking. High growth potential is expected for various RFID applications such as parcel tracking, toll-collection and anti-fraud.

E-commerce and network security

eMarketer estimated that the value of commercial transactions over the Internet will increase from approximately US\$105.7 billion worldwide in 1999 to approximately US\$1,443 billion worldwide in 2003, representing a compound annual growth rate of approximately 92%. However, the development of e-commerce is materially hindered by security concern. To this end, sophisticated personal access identification is paramount. Smartcard, with its high level of safety features, offers the best available technology for such needs. As remarked by Mr. Bill Gates, the chairman and chief software architect of Microsoft Corporation, “*The whole trust thing is a big part of this [e-commerce and the Internet], and many mechanisms have been proposed, whether it's fingerprints or voice prints. And it's our view that there's enough complexity and drawbacks to those approaches [and] that it's really the smart card that's most likely to be very, very pervasive and taken for granted in terms of identity and security*”. As such, the Microsoft Corporation is planning to launch smartcard based solutions to ensure secured access to open interactive systems. For example, smartcard authentication is to be used as an alternative to passwords to achieve strong network authentication. In addition, smartcard enhances various software-only solution such as interactive logon, client authentication and remote logon. Other sophisticated operations such as digital signature and public-infrastructure key

INDUSTRY OVERVIEW

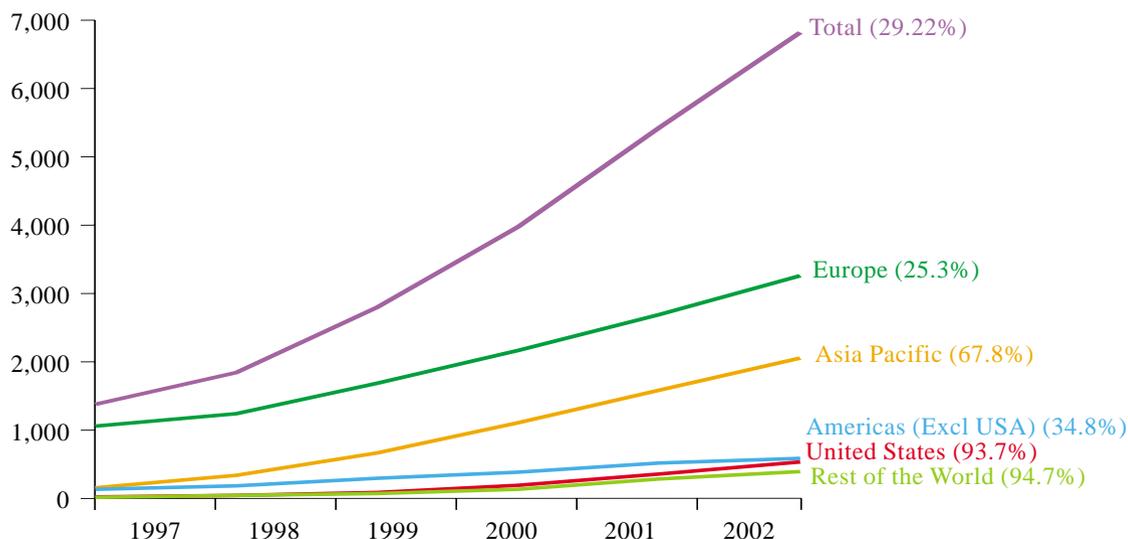
exchange are also made possible with smartcard application and cryptography. Network security smartcards are anticipated to be one of the fastest growing verticle markets, with digital certificates and virtual private networks in the growing e-commerce.

The global market

The smartcard industry is in its infancy and is one of the fastest growing industries worldwide. The industry started in the second half of the 1980s. The industry is characterised by annual double-digit growth rates, with approximately 10 billion annual transactions by 2001. According to Gemplus, a leading international smartcard producer, the expected smartcard penetration rate will increase from one smartcard used per 10 capita in 1996 to one card used per capita in 2003. According to Dataquest, the worldwide smartcard market issued about 962 million units in 1997 and this is expected to undergo a compound annual growth rate of approximately 37% during the six years up to and including 2002. Europe will remain the largest smartcard market for the next five years. Dataquest is a leading IT market research and consulting firm for suppliers of IT and the financial and investment communities. The graph below shows the chip market forecast for the different regions of the world.

Revenue of Smartcard market for different parts of the world

(US\$ millions)



Note: Figures in parenthesis represent expected compound annual growth rate of the revenue in the area.

Source: Dataquest (as extracted from the listing prospectus of ACG AG dated 11th June, 1999)

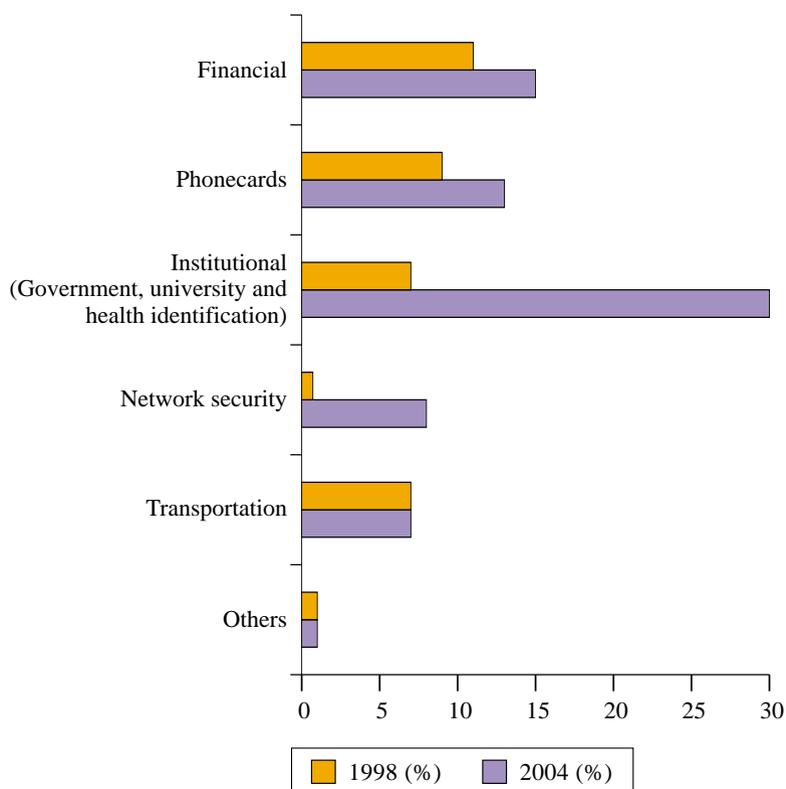
The Asia Pacific Market

The Asia Pacific smartcard market is expected to experience a substantial growth, especially in the PRC where the technology is expected to penetrate a slew of applications. According to a report issued by Frost & Sullivan in 1999, the Asia Pacific region will command at least a quarter of market revenues worldwide by 2004. Frost & Sullivan is a marketing consulting company. The PRC alone is expected to command nearly one third of the market revenues of the region. Currently, telecommunications applications (such as phone cards) dominate the Asia Pacific smartcard market

INDUSTRY OVERVIEW

in terms of units. Subscriber identification applications (such as SIM card for GSM handsets and pay television set-top boxes) dominate regional card sales. Another vertical market of potential for the Asia Pacific region is the institutional card market. This market encompasses cards issued for government, university, and health identification. To cite an example, Malaysia is carrying out its Multimedia Super Corridor project that plans to issue citizens with multiapplication cards, whilst Hong Kong, Taiwan and Singapore are pushing for nation-wide smartcard programme.

Asia Pacific Smartcard Market: Application Market Share by Revenues



Source: Frost & Sullivan, 1999

Smartcard market in Hong Kong

The Directors believe that there are a number of market opportunities for smartcard application in Hong Kong. In addition to the popular smartcard application such as automatic fare collection by Octopus, there are a few large scale smartcard projects expected in Hong Kong. For example, the smart ID card projects and additional application of Octopus, which has already been used in a mass transportation system in Hong Kong.

The Hong Kong Government announced in October 2000 its intention to introduce in 2003 a new smart ID card system with the capacity to support multiple applications. It is expected that the new system will support applications such as electronic authentication, digital certificate and electronic payment.

INDUSTRY OVERVIEW

The operator of Octopus payment system plans to expand Octopus use for payment for vended products and for access control for residential estates and for commercial/industrial buildings. The Directors believe that such plan will not only create opportunities for smartcard system design and implementation but also corresponding access control and security system for residential and commercial and industrial building.

Smartcard market in the PRC

The PRC is considered to be one of the fastest growing markets for smartcard application and the concept of smartcard is widely accepted. Smartcard system is used by banks, taxi, gas stations, and automatic fare collection systems in toll road. Today, the SIM cards market in the PRC is already the largest in the world. Prospects for market growth include national ID cards in the near future. Plans are being formulated for several other projects to introduce smartcards in the areas of transport, social security and banking. The PRC is quickening its pace of infrastructure development for adaptation of smartcard by the Central bank's acceptance of international standard for smartcard transactions in the PRC.

HISTORY AND BUSINESS DEVELOPMENT

The Group, founded by Mr. H.K. Lau and Mr. Manho, commenced to provide and integrate control and automation system solutions in 1997. Since its establishment, the Group directed its marketing efforts principally to property developers and management companies and delivered solutions for various office buildings, commercial and recreational facilities. In late 1997, the Group foresaw smartcard as a pivotal technology and tremendous market potential for a smartcard solution provider and system integrator in Hong Kong. Accordingly, it commenced feasibility studies as well as conducted R&D works for smartcard related services and products in the same year. The Group realised the highly customised requirements of a smartcard solution, and decided to conduct related R&D starting from the component level. To achieve more sophisticated automation features, various industrial and information technologies such as supervisory control and data acquisition, embedded industrial PC working with Linux server were also incorporated into the development scope.

During the year ended 31st March, 1999, the Group consolidated its R&D works, and developed a range of smartcard system solutions. Marketing effort was spared throughout this year to introduce the Group's smartcard solution and services to potential clients. To cater for rapid expansion, the Company employed additional engineers and programmers to further develop various smartcard applications.

The Group's previous investments in R&D and marketing effort started to pay back in the year ended 31st March, 2000. The Company submitted bids for tenders for eleven smartcard projects in Hong Kong and obtained contracts for all of such projects during the year. Among these projects, the Group completed 2 smartcard projects for carpark access control of Palm Springs Villa developed by Sun Hung Kai Properties Limited, a leading property developer in Hong Kong, and a substantial portion of an integrated smartcard solution for The University of Hong Kong.

During the period from 1st April, 2000 to the Latest Practicable Date, the Group continued to capitalise on the previous R&D work on smartcard application and completed 3 smartcard projects for real estates developed by Henderson Land Development Co. Ltd., another leading property developer in Hong Kong, namely, Metro City, Casa Marina Villas and La Cite Noble. Furthermore, the Group also completed the respective smartcard projects for The University of Hong Kong, The Chinese University of Hong Kong, and The Hong Kong Institute of Education. In addition, the Group commenced a smartcard project for residential units of public housing in Hong Kong.

In October 2000, the contactless smartmeter MF-25SM, which is promoted under the Group's registered trademark "**HOMAC**", was awarded the 2000 Hong Kong Awards for Industry, Certificate of Merit in Consumer Product Design by the Federation of Hong Kong Industries. The contactless smartmeter was also type-accepted by the Office of Telecommunication Authority in July 2000.

The Company was incorporated on 6th November, 2000 and became the holding company of the Group pursuant to the group reorganisation exercise which is described in the section headed "Group reorganisation" in Appendix V to this prospectus.

GENERAL OVERVIEW OF THE GROUP

STATEMENT OF ACTIVE BUSINESS PURSUITS

The following is a statement of active business pursuits of the Group for each of the two years ended 31st March, 2000, and for the period from 1st April, 2000 to 31st December, 2000:

For the year ended 31st March, 1999

Revenue	Total revenue of approximately HK\$4.7 million
Sales and marketing	Conducted direct marketing principally to property developer Launched hardware products for typical smartcard system, including smartcard reader and other peripherals under the trademark of “HOMAC”
Projects	Commenced 4 projects and completed 1 project
R&D	Commenced R&D of RFID technology for contactless smartcard system solution for parking management and facility management for real estates and buildings Commenced R&D on hardware products for typical smartcard system
Human resources	Increased total headcount to 5 employees

For the year ended 31st March, 2000

Revenue	Total revenue of approximately HK\$16.5 million, representing growth of approximately 3.5 times
Sales and marketing	Launched its smartcard related services Conducted direct marketing principally to property developer and management companies and education institutions
Projects	Commenced 12 projects and completed 7 projects including: (i) a smartcard based integrated classroom bookings, access and facility control system for The University of Hong Kong (ii) a smartcard system for Palm Springs Villa developed by Sun Hung Kai Properties Limited, a leading property developer in Hong Kong
R&D	Continued R&D of RFID technologies for contactless smartcard system Commenced R&D of smartcard solution for campus environment
Human resources	Increased total headcount to 16 employees

GENERAL OVERVIEW OF THE GROUP

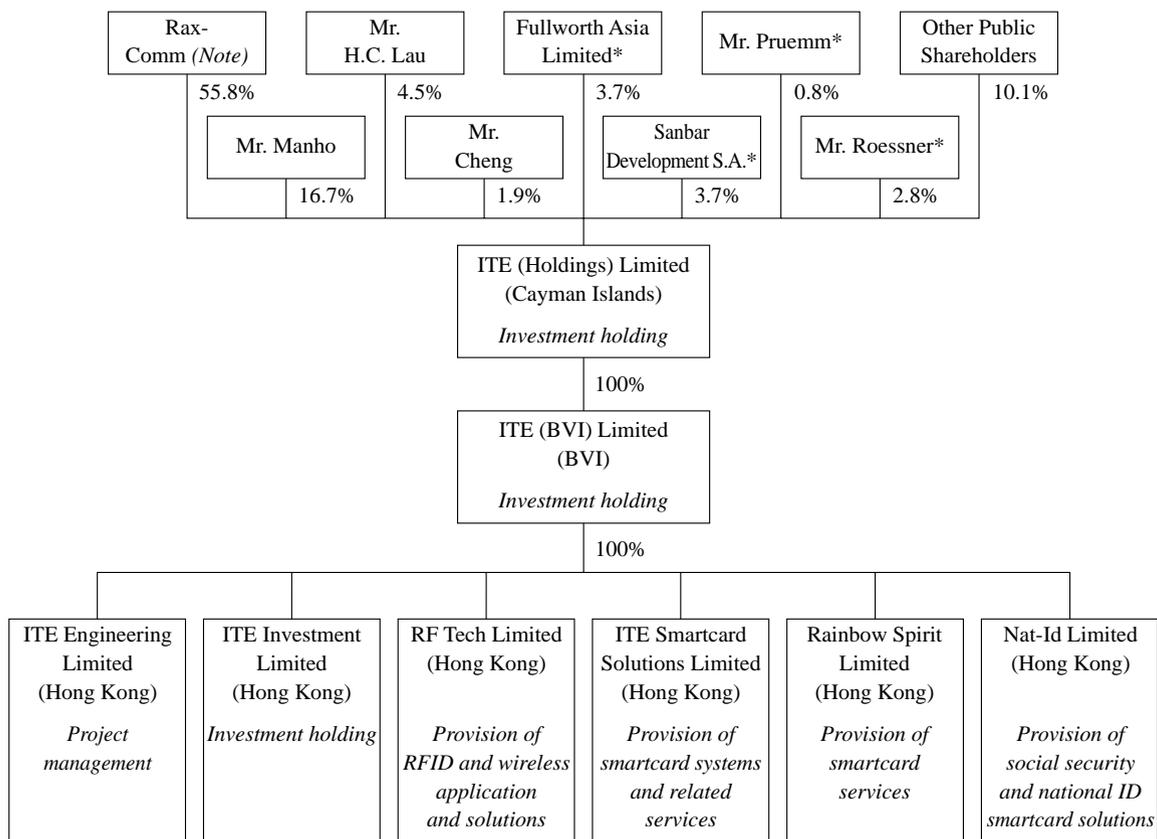
For the period from 1st April, 2000 to 31st December, 2000

Revenue	Total revenue of approximately HK\$34.4 million, representing growth of approximately 2.8 times on an annualised basis
Geographical Expansion	Entered into two contracts for the design and provision of smartcard solution in the PRC
Sales and marketing	Continued direct marketing principally to property developer, management companies and education institutions
Projects	Commenced 7 projects and completed 10 projects including: <ul style="list-style-type: none">(i) an electronic access system and a contact smartmeter system for student hostels for The University of Hong Kong(ii) a library smartcard system, campus access control system for The Chinese University of Hong Kong(iii) a campus smartcard and a contactless smartmeter system for student hostels for The Hong Kong Institute of Education(iv) a real estate smartcard system for each of La Cite Noble, Metro City and Casa Marina Villas developed by Henderson Land Development Co. Ltd., a leading property developer in Hong Kong
R&D	Continued R&D of RFID technology for contactless smartcard system Continued R&D of smartcard solution for campus environment
Human resources	Increased total headcount to 35 employees
Licence	Obtained a licence from the Hong Kong Office of Telecommunication Authority as an unrestricted radio dealer for distribution of radio equipment
Accreditation	The contactless smartmeter MF-25SM, which is promoted under the Group's registered trademark "HOMAC", was awarded a Certificate of Merit in Consumer Product Design by the Federation of Hong Kong Industries

GENERAL OVERVIEW OF THE GROUP

GROUP STRUCTURE

The shareholding structure of the Company (assuming the Over-allotment Option is not exercised) and the structure of the Group upon the listing of the Shares on GEM and their respective places of incorporation and principal or intended activities are as follows:



* *Public Shareholders*

Note: Rax-Comm is owned as to 46.21% by Mr. H.K. Lau, as to 8.58% by Ms. Lau, as to 9.10% by Mr. H.C. Lau and as to 36.11% by Mr. Cheng.

STRATEGIC INVESTORS

In November 2000, Fullworth Asia Limited, Sanbar Development Corporation S. A., Mr. Pruemm and Mr. Roessner acquired interest in ITE(HK), which has become a subsidiary of the Company pursuant to the Reorganisation. After the Reorganisation and immediately after the Capitalisation Issue and the Placing, each of Fullworth Asia Limited, Sanbar Development Corporation S. A., Mr. Pruemm and Mr. Roessner beneficially owns 16,400,026 Shares, 16,400,026 Shares, 3,587,945 Shares and 12,564,008 Shares representing approximately 3.7%, 3.7%, 0.8% and 2.8% of the issued share capital of the Company respectively (assuming the Over-allotment Option is not exercised). Each of them has undertaken to subject their respective holding of the Shares to a moratorium period of 6 months from the Listing Date. Save and except their shareholding in the Company, Fullworth Asia Limited, Sanbar Development Corporation S.A., Mr. Pruemm and Mr.

GENERAL OVERVIEW OF THE GROUP

Roessner are independent of each other, the Company, the directors, the substantial shareholders and the management shareholders of the Company and its subsidiaries or their respective associates. Further details of the Reorganisation are set out in the paragraph headed “Group reorganisation” in Appendix V to this prospectus.

Fullworth Asia Limited is a company incorporated in the BVI with limited liability. Sanbar Development Corporation S.A. is a company incorporated in the Republic of Panama with limited liability. Each of Fullworth Asia Limited and Sanbar Development Corporation S.A. is engaged in direct investment in quality companies in high growth sectors.

Mr. Pruemmm is a founder and board member of ACG AG, a broker for smartcard components, contactless RFID products and semiconductors listed on the German Neur Market in July 1999. He holds a degree from the University of St. Gallen, Switzerland. Before founding ACG AG in 1996, he worked at DuPont de Nemours, Bruxelles, AEG AG, Hausger (consumer electronics), Polaroid Corp., Offenbach. In 2000, Mr. Pruemmm was named “Entrepreneur of the Year 2000”. The Entrepreneur of the Year award is an initiative by Ernst & Young Consulting GmbH to honour top entrepreneurial performance among small and medium-sized companies in Germany.

Mr. Roessner has been the managing director and a partner of ACG (Asia Pacific) Pte. Ltd., a subsidiary of ACG AG. Before joining ACG AG, he worked at Siemens AG and Automation & Drives Group. Mr. Roessner holds a degree from the University for Applied Sciences Wuerzburg-Schwiefurt, Germany. He received scholarships of Hanns-Seidel Foundation and Siemens AG during his studies.

Both Mr. Pruemmm and Mr. Roessner have extensive experience in the smartcard industry and act as advisers to the Group. They have advised the Group on product development as well as marketing strategies and they do not participate in the daily operations or management of Group. Each of Mr. Pruemmm and Mr. Roessner has been granted options under the Pre-IPO Share Option Scheme to subscribe for 1,200,000 Shares and 1,200,000 Shares respectively. Details of the Pre-IPO Share Option Scheme are contained in the paragraph headed “Pre-IPO share option scheme” in Appendix V to this prospectus.

OVERVIEW

The Group is a smartcard solution provider and system integrator. It utilises a combination of smartcard system expertise, component level technical knowledge and its extensive software library to design and implement smartcard solutions based upon the requirements of its clients. Most of the smartcard systems designed and implemented by the Group are based on personalised smartcard and are used for e-payment and intelligent facility management. The smartcard and related control systems adopted for intelligent facility management are used to control and monitor various aspects of facility including security, energy consumption, resources allocation and Internet/Intranet connection and access. The Group's smartcard solution can also cater for a wide range of applications such as automatic fare collection and network security. To complement its smartcard solution, the Group leverages on its expertise and innovations to initiate its own product ideas and develops a set of devices commonly used in a smartcard system. The set of devices developed by the Group can be supplied as part of the system solutions provided by the Group. The Group also designs and supplies intelligent facility management system which does not utilise any smartcard applications.

The Directors consider that the Group is one of the leading smartcard solution providers and system integrators in a few segments of the smartcard market, namely campus and real estate markets in Hong Kong. The Group's clients also comprise government departments including Hong Kong Housing Authority. As an early mover in the smartcard market in Hong Kong, the Group is proactively expanding its client base. The Group is involved in discussions with the operator of Octopus system (which is, inter alia, an automatic fare collection system for the mass transit railway system in Hong Kong) in relation to the provision of solutions for Octopus based access control system to business entities, buildings and estates. The Directors believe that as Octopus based smartcard systems are becoming more popular in the daily life of the Hong Kong population, there are substantial opportunities for smartcard solution providers including the Group. The discussion with the operator of Octopus is still ongoing and no agreement has yet been reached.

Equipped with the technological know-how in and experience gained from developing smartcard systems, in particular using RFID (radio frequency identification) technology for contactless smartcard system, the Group is planning to expand its range of smartcard applications and client base to other business segments such as transportation, banking, retail, e-commerce and telecommunications.

MISSION

It is the mission of the Group to ***“provide total control and automation solution to enhance quality in various aspects of life and commercial operation through the utilisation of smartcard and RFID technology”***.

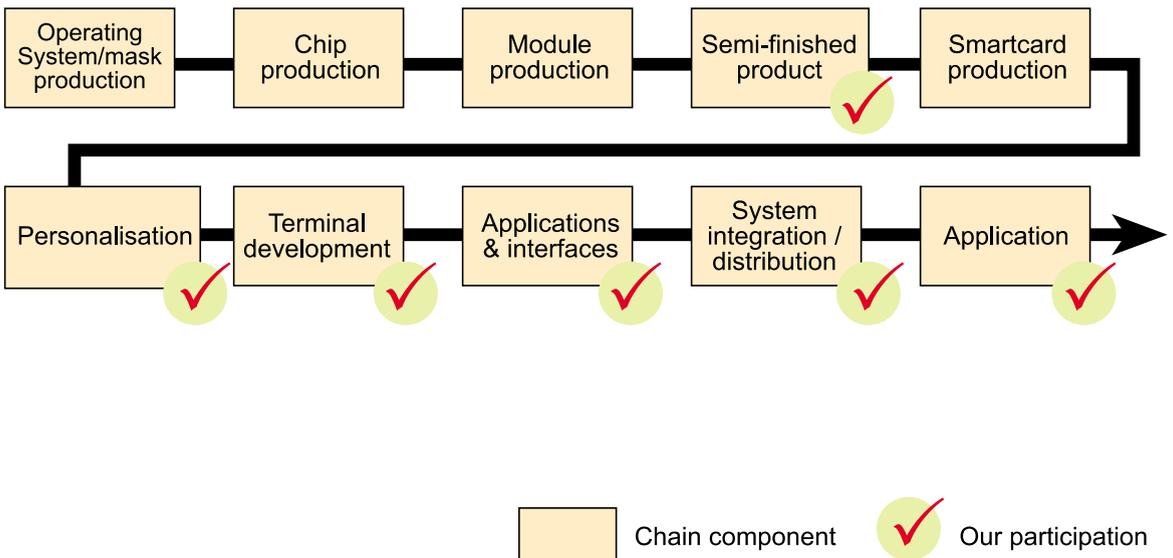
SYSTEM SOLUTIONS

The Group designs, develops and implements smartcard solutions and provides related services for its clients. The Group tailor-makes solutions for its clients based upon their specific requirements with its self-developed software and hardware solutions and third party products as required. Currently, the smartcard systems designed and implemented by the Group are mostly used for e-payment and intelligent facility management, whereby smartcard application and related control system is used to control and monitor various aspects of facility including security, energy consumption, resources allocation and Internet/Intranet connection and access. The Directors believe that with innovation and technological advancement, there can be limitless applications making use of smartcard and RFID technology to serve the needs for automation in various aspects of life and commercial operation.

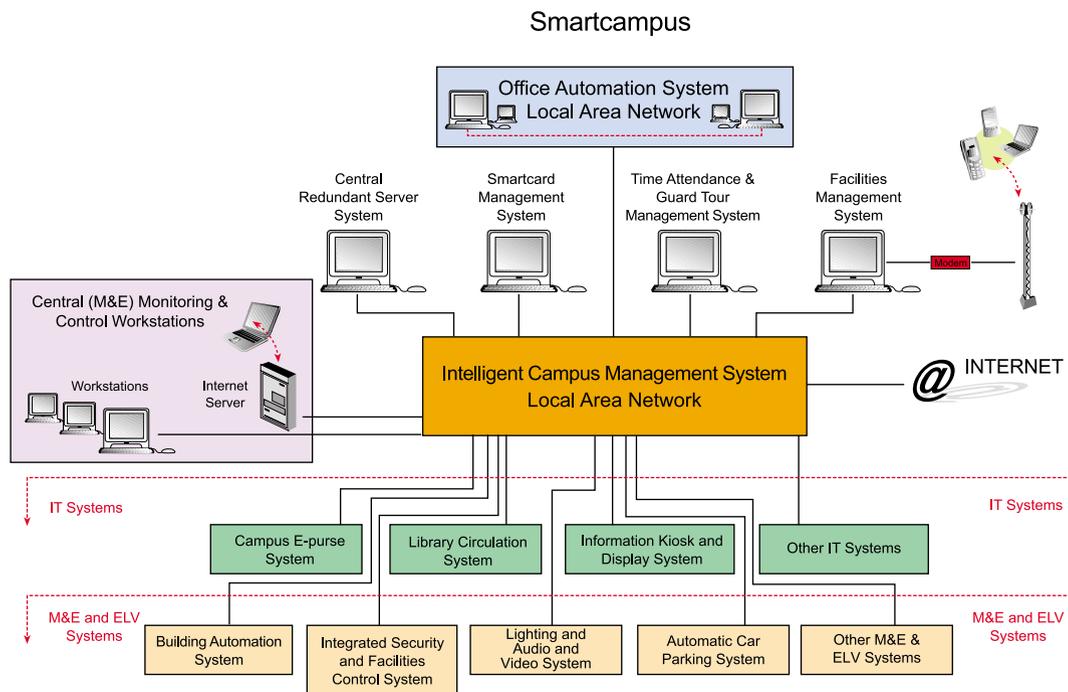
It is the belief of the Group that in order to supply the most suitable solution for its client, it should take a technological neutral approach in selecting third party technology and products for system development and therefore maintain the flexibility to utilise the most suitable technology and products for its clients. In addition, to ensure optimal utilisation of each hardware product, the Group’s engineers conduct research down to the component level such that the Group can have in-depth understanding of the functionality and performance of hardware products supplied by different suppliers. To complement its services, the Group has also launched a series of hardware peripheral products for standard smartcard system under its “**HOMAC**” brandname.

The Group participated in most of the steps involved in the value-added chain in smartcard business. A graphical illustration of its participation is as follows.

Involvement in Smartcard Value-added Chain



Based on its understanding of general requirements of certain client segments, the Group designs standard solutions for specific application environments. These solutions will be customised to cater for specific requirements of a particular client. One of the relevant examples is the “SmartCampus” solution. This solution integrates systems for information management, online and physical conditional access, security, cashless transactions and resources control and monitoring on campus. The following is a graphical illustration of the “SmartCampus” solution specifically developed by the Group for a campus environment.



The Directors believe that given the software library built up by the Group and the application know-how accumulated by its R&D personnel, it will be economical for the Group to expand the scope of applications it provides. The Group will conduct research of smartcard applications in areas such as national ID, social security, public transportation, e-commerce and logistics and intends to launch the related applications in accordance with the Business Plan. More details of the Business Plan are set out in the section headed “Future plans and prospects” of this prospectus.

In some cases, the Group also designs and supplies intelligent facility management systems, which do not include any smartcard applications, upon request of its clients.

IMPLEMENTATION AND AFTER SALES SERVICES

On securing a contract, the Group’s project management team will discuss with its client the requirements for the desired system. After agreeing on the specifications of the system, the Group’s engineering and programming team will develop the solution accordingly. Following completion of the development process, the Group normally implements the system after completing, jointly with the client, a user acceptance test with satisfactory result. Thereafter the Group will provide on-site user training with and documentation relating to the operation of the system. In general, a project can be

completed within 6 months. As at 31st August, 2000, projects in progress amounted to approximately HK\$3,199,000 and were shown under “Debtors and prepayments” in the accountants’ report as set out in Appendix I to this prospectus.

After completion of the installation of the system, the Company also provides ongoing hardware supply and maintenance services. The Group usually provides one year free maintenance services to its client after installation. After the first year, the Group charges a fixed fee for on-going maintenance services.

PRODUCTS

To complement its system solution services, the Group designs and sells a series of devices, which form part of a typical smartcard system. These products are promoted with the Group’s registered trademark of “**HOMAC**” and can be divided into four types, namely reader (for reading and writing data contained in a smartcard), processing unit (for processing signal for hardware movement), controller (for connecting the reader, processing unit, other peripherals and computer system) and system interface unit (for connecting to outside network such as the Intranet/Internet). These products are used in the system solution provided by the Group and can be programmed to cater for specific needs of the client. Currently, there are eight categories of devices offered under the “**HOMAC**” trademark. Among these eight categories, four are for contactless system, one for contact system and three for both.

AWARDS AND RECOGNITION

In 2000, the Group was awarded by the Federation of Hong Kong Industries for the 2000 Hong Kong Awards a Certificate of Merit in Consumer Product Design for the contactless smartmeter MF-25SM. The contactless smartmeter MF-25SM was designed to facilitate e-commerce cashless payment environments. The contactless smartmeter was also type-accepted by the Office of Telecommunication Authority in July 2000.

CLIENTELE

The Group has provided smartcard solutions and related services to a number of reputable property developers, property management companies and tertiary education institutions. The Directors consider that the Group is equipped with the technical know-how for expanding its client base to other business segments such as transportation, banking, retail and e-commerce. Up to the Latest Practicable Date, except for two systems which are installed in the PRC, all of the systems supplied by the Group are installed in Hong Kong.

The five largest clients accounted for approximately 91.2%, 83.2% and 91.4% of the Group’s turnover for the years ended 31st March, 1999 and 31st March, 2000, and for the five months ended 31st August, 2000 respectively. The largest customer accounted for approximately 30.6%, 52.9% and 40.7% of the Group’s turnover for the years ended 31st March, 1999 and 31st March, 2000, and for the five months ended 31st August, 2000 respectively. None of the Directors, nor any shareholder of the Company who will be interested in more than 5% of the issued share capital of the Company immediately following the Capitalisation Issue and the Placing (but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option) or their respective associates have any interest in any of the Group’s five largest customers during the two years ended 31st March, 2000 and the period from 1st April, 2000 to the Latest Practicable Date.

Case studies*The University of Hong Kong*

During the period from August 1999 to August 2000, the Group designed, supplied and installed an integrated smartcard based classroom bookings, access and facility control system and an electronic access system for The University of Hong Kong. The integrated system provides a distributed and centralised control by the registry and estates office of the university and user departments for classrooms which are located in more than 10 buildings within the university while the access system provides security control for certain laboratories of the university.

The Hong Kong Institute of Education

During the period from December 1999 to May 2000, the Group designed, supplied and installed for the Hong Kong Institute of Education a smartcard system for the monitoring and charging of usage of air-conditioners, electrical washing machines and electrical tumble dryers that will be installed in the student hostels of the institution. This system allows the users to pay for the electricity consumed by the machines they use.

During the period from February 2000 to October 2000, the Group designed, supplied and implemented another contactless campus smartcard system for the institute. This system is to provide a one-card solution by integrating the previous fragmented system set up for various applications such as student and staff ID cards and access control to facilities within the institute, including libraries, sport facilities as well as laboratories.

The Chinese University of Hong Kong

During the period from January 2000 to October 2000, the Group designed, supplied and installed for The Chinese University of Hong Kong a library smartcard system for the six libraries of the university. The smartcard system serves to control and monitor access and to charge and account for photocopying and network printing within the libraries.

During the period from April 2000 to October 2000, the Group designed, supplied and installed a smartcard based access control system for various departments for the university. Functions of this system includes identification and physical access control and applies to large building complex on campus, departmental facility, central facility, and student hostels.

Since August 2000, the Group designed, supplied and installed smartcard systems for various student hostels for The Chinese University of Hong Kong. The systems were installed in each bedroom and laundry to monitor and control usage and to operate the air-conditioner and clothes dryers in student hostels.

Palm Springs Villa

During the period from March 1999 to November 1999, the Group designed, supplied and installed an intelligent estate contactless smartcard system for Palm Springs Villa, a large scale real estate in Yuen Long, Hong Kong. For this project, the Group utilised long range RFID technology and integrated the existing carpark access control system with a new contactless smartcard system so as to facilitate centralised management.

La Cite Noble and Metro City

During the period from September 1999 to September 2000, the Group designed, supplied and installed intelligent estate contactless smartcard systems for La Cite Noble and Metro City, two large residential developments in Tseung Kwan O, Hong Kong. The systems provide services to meet the requirements of prestige user identification and authorisation, lobby and carpark access control, club facility booking, cashless shuttle bus fare payment, carpark hourly and monthly rental as well as management fee debit system.

SALES AND MARKETING

The Group's sales and marketing team is responsible for the promotion of the Group's services to prospective and existing clients. The Group adopted a lean structure for its sales and marketing team such that the sales and marketing personnel only acts as a focal point for client liaison and technical personnel is to be involved in a project as early as possible. The Directors believe that such structure can ensure sufficient technical expertise be provided to the client in a timely manner.

Seminars are conducted to raise the awareness of its clients of the latest technological developments.

The Group provides its products and services to its clients on a fixed price basis. A fixed price project is characterised by a pre-defined project scope or functions that is agreed upon between the Group and its client. The total contract sum is fixed in advance and the Group normally receives a portion of the contract sum upon completion of pre-agreed project milestones.

The Group generally gives 30 to 90 days of credit terms to its clients based on the length of business relationship with a particular client, its payment history, and its 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 Directors note that most of the Group's clients are large corporations or government subsidised entities. As at the Latest Practicable Date, the Group had not encountered any debt collection problem and therefore, it was not required to make any provision for bad and doubtful debts. The Group quotes all its products and services in HK dollars. All payments to date by the clients have been settled by cheques or remittances.

SUPPLIERS

The Group's suppliers are mainly third-party components and hardware vendors in Germany, France and the US. Since the Group focuses on the development and deployment of its own software and hardware products and given the availability of components in the market, its business is not dependent on any particular third-party supplier.

The Company normally settles its purchases by cheques and remittances with a credit period of about 30 days. All of the Company's purchases for the year ended 31st March, 1999 were settled in HK dollars. For the year ended 31st March, 2000, approximately 83.2%, 5.4% and 11.4% of the Group's purchases were settled in HK dollars, US dollars and DM respectively. For the five months ended 31st August, 2000, approximately 86.3%, 6.8% and 6.9% of the Group's purchases were settled in Hong Kong dollars, US dollars and DM respectively.

The five largest suppliers accounted for approximately 75.5%, 52.8% and 44.9% of the Group's purchases for the years ended 31st March, 1999 and 31st March, 2000, and for the five months ended 31st August, 2000 respectively. The largest supplier accounted for approximately 22.9%, 12.8% and 13.9% of the Group's purchases for the years ended 31st March, 1999 and 31st March, 2000, and for the five months ended 31st August, 2000 respectively. None of the Directors, nor any shareholder of the Company who will be interested in more than 5% of the issued share capital of the Company immediately following the Capitalisation Issue and the Placing (but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option) or their respective associates have any interest in any of the Group's five largest suppliers during the two years ended 31st March, 2000 and the period from 1st April, 2000 to the Latest Practicable Date.

RESEARCH AND DEVELOPMENT

The Group takes a proactive and application-oriented approach for its R&D endeavours. It is the Group's policy to concentrate on R&D of software and hardware solution in such fields as smartcard solution for campus and, in future, RFID based application for logistics and supply chain management and smartcard based security and e-commerce solution, which are expected to generate significant profits to the Group. To develop the most suitable solution for its client, the Group emphasises on research on a broad range of technologies so as to maintain flexibility to utilise the most appropriate technological platform for each client. As a result, the Group attains an advantageous technological neutral position in selecting third party technology for system development. In addition, to ensure optimal utilisation of hardware product, the Group conducts research down to component level such that the Group can have in-depth understanding of the functions and performance of individual component and mechanism of hardware products supplied by different suppliers.

Through extensive R&D, the Group has developed its own software library and established a re-usable software framework. The Directors believe that this set of re-usable framework can effectively shorten the development time of new software products and improve the quality of solutions and products developed by the Group.

As at the Latest Practicable Date, the Group had 14 technical personnel involved in dedicated R&D activities. The Group's technical personnel also rotate to participate in the Group's projects starting from an early stage of work so that technical support can be provided to client in a timely manner and the technical personnel can gain exposure in the application environment, which can in turn enhance R&D work. For each of the two years ended 31st March, 2000 and the five months ended 31st August, 2000, the Group's research and development expenditures amounted to approximately HK\$160,000, HK\$616,000 and HK\$524,000 respectively. Research and development costs are expensed in the profit and loss account as and when incurred.

COMPETITION

The Directors believe that the Group is one of the few local smartcard system integrators and solution providers with the capability to implement medium to large scale smartcard systems and is likely to be the only one with experience to provide total solutions for university campus applications. The Directors are of the view that the Group's experience and technical expertise have contributed to its unique position. Although there are many local software houses, system integrators, IT companies

and engineering companies respectively providing certain part of smartcard related services, the Directors are not aware of any local competitors with the capability to deliver a total solution with respect to smartcard system.

As for foreign competitors, the Group faces competition from various international system solution providers. These competitors usually have a stronger financial background and longer history than the Group and may have more experience than the Group in implementing certain types of smartcard solutions. Although the Group did not encounter much competition from foreign competitors in the real estate and university campus projects it recently bid for, the Directors envisage that there will be extensive competition from foreign competitors in institutional projects such as national smart ID card in Hong Kong and the PRC. However, the Directors are of the view that since normally more than one contractor will be engaged in an institutional project, and given that the Group is able to provide local support and has extensive experience in implementing its services locally, the Group will be in an advantageous position to secure a certain portion of these projects in Hong Kong. The Director believe that very few, if any, of the international competitors have localised their implementation team in Hong Kong or support localised solution in Chinese, which is considered to be important in the case of projects in the PRC.

As for other intelligent facility management system without smartcard application, the Directors believe that there is a varying degree of competition for projects of various technical complexity and different application environment. The Directors believe that, in general, competition is more intense for those with lower technical standard. The Directors also believe that the Group is capable of implementing projects that demand a relatively higher technical standard and provide ongoing local support and has more experience in the campus and real estate application environment, which contribute to the competitive strength of the Group in this regard.

INTELLECTUAL PROPERTIES

Software library

Since its establishment, the Group has been developing an extensive software library comprising proprietary software solutions for various types of applications. The Group utilises its software library to create system solutions to meet the needs of its clients. The Directors believe that as the Group will continue to build up its software library, which in turn will reduce the cost of designing and implementing new solutions and improve the quality of the Group's solution and timeliness of delivery.

Protection of proprietary rights

The Group seeks to protect its proprietary rights through confidentiality procedures and contractual protections such as non-disclosure agreements with its suppliers, clients, industry players and employment contracts with confidentiality terms with its employees. However, the Group cannot guarantee that the steps it has taken to protect its proprietary rights will be adequate to deter misappropriation of the Group's interests, and the Group may not be able to detect unauthorised use and take appropriate steps to fully enforce its proprietary rights.

Patents

The Group has not patented or applied for any patent registration for any of its solution and hardware designs. The Directors consider that the confidentiality agreement between the Group and its clients should provide adequate protection to the Group's intellectual property rights. In future, the Group may consider applying for patent registrations for certain system solutions.

Trademarks

The Group has registered and applied for the registration of its trademarks, details of which are referred to in the paragraph headed "Intellectual property rights of the Group" in Appendix V to this prospectus.

YEAR 2000 COMPLIANCE ISSUE

The Year 2000 issue has arisen as a result of computer programmes being written and other automated systems being designed using two digits (rather than four) to identify calendar years, resulting in potentially incorrect calculations or system failure in computer or automated systems with time-sensitive functions for the year 2000 and beyond.

The Group has assessed the Year 2000 issue for its internal systems and operations, and external suppliers. The Group has taken necessary steps to ensure that its computer systems and products are Year 2000 compliant and that semiconductor chips and other products supplied to the Group have been tested and are Year 2000 compliant. The Group has also taken the necessary measures to ensure that the products sold or services provided to clients are Year 2000 compliant.

As at the Latest Practicable Date, there has been no major problem in the Group or client complaint in relation to the Group's products and/or services as a result of the Year 2000 issue.

FUTURE PLANS

The Directors believe that the smartcard industry is a developing and fast growing one with enormous potential in terms of geographical, user adaptation and scope of applications. High double digit revenue growth is expected in new applications of smartcard and RFID technology in e-commerce and e-infrastructure, especially in the Asia Pacific region.

It is the goal of the Group to capture market opportunities by developing and expanding its technological and application know-how and widening its business coverage and ultimately to become a market leader in the Asia Pacific region. To date, the focus for the Group has been Hong Kong. In the immediate near future, the Group will expand its business into the PRC, which is believed to be one of the fastest growing and largest markets for smartcard and RFID applications. In the medium term, the Group also plans to establish offices or other forms of presence in selected markets across the Asia Pacific region after undertaking careful market study.

The Group intends to attain its goal through implementing the following strategies.

Continue R&D of technology and application

The Group strives to provide the latest and fastest smartcard solutions with superior service quality in terms of technical know-how, product range, flexibility and timeliness. The Directors believe that this can be achieved by continuing R&D in new technologies and exploring new applications. The Group will concentrate on the development of technologies in such fields as RFID based application for logistics and supply chain management and smartcard based security and e-commerce solution, which are expected to generate significant profits to the Group. In addition to establishing a professional and proactive R&D team, the Group will continue to foster its network of technology providers, smartcard and component manufacturers with a view to offering quality solution to its clients.

Expand range of applications and innovate new applications

The Directors are of the opinion that with innovation and technological advancement, limitless applications can be derived from smartcard and RFID technologies to serve the needs for control and automation in various aspects of life and commercial operation. The Directors are confident that with its technical background, the Group is capable of running additional business models either on its own as a service provider (for example, offering a loyalty program, members of which can use personalised smartcard to access privileged information and/or enjoy discount for merchandise) or in collaboration with other service providers (for example, collaboration with the operator of Octopus system in Hong Kong). Based on the currently intended scope of collaboration with the operator of Octopus, no third party approval is required. With its enlarging technology and application knowledge base, the Group's solution development time is being shortened and it would be economical for the Group to expand into other systems and applications such as those for social security and financial institutions. The Directors regard e-commerce, facility and access control running on a common smartcard platform and e-logistics as a medium term target market and intend to initiate cooperation with relevant service providers in the future.

Capitalise on opportunities in e-commerce in the Asia Pacific region

The advantages of applying smartcard solutions in e-commerce have been widely acknowledged, in particular, in terms of security. As remarked by **Mr. Bill Gates**, the chairman and chief software architect of Microsoft Corporation “*The whole trust thing is a big part of this [e-commerce and the Internet], and many mechanisms have been proposed, whether it’s fingerprints or voice prints. And it’s our view that there’s enough complexity and drawbacks to those approaches [and] that it’s really the smartcard that’s most likely to be very, very pervasive and taken for granted in terms of identity and security.*” As such, the Group foresees significant business potential in applying smartcard solutions to the world of e-commerce. The Group intends to become a leading regional provider of smartcard based e-commerce and e-payment solutions, which will enable service providers (such as banks and e-commerce operators) to provide more convenient and secure services to their customers. The Directors expect that these solutions may include smartcard solutions for credit card business and biometric based smartcard secured online data transmission. To accomplish this goal, the Group will explore different business models and formulate strategic alliances with players engaged in e-commerce and e-infrastructure. The Directors expect that the Group will commence the related R&D works and formulate detailed plans in these respects during the six months period ending 30th September, 2001.

Expand participation in the value-added chain of smartcard business

Currently, the Group’s activities are mainly the designing of and providing smartcard solutions. The Directors consider that it will be beneficial for the Group to expand vertically to participate in the manufacturing of smartcard and related peripheral hardware. The Directors intend that such participation will take the forms of strategic alliance, investment in minority equity stake in a selected manufacturer or other cost effective means which will not require intensive capital commitment. As at the Latest Practicable Date, no target company for strategic alliance or investment has been identified and accordingly, no agreement has been entered into in this regard. The Directors believe that by extending the Group’s participation in the value-added chain, the Group will be able to secure more timely and reliable supply of related hardware and enhance its capability to provide end-to-end solutions for the clients. It is the belief of the Group that comprehensive technical knowledge of the hardware and software aspects of a system is paramount for building a quality system. Therefore, the Group will also take advantage of the experience and resources of smartcard manufacturers so as to enhance the Group’s R&D capability.

Evolve to be community service provider

The Directors believe that the Group has established a distinct market position as a smartcard system integrator and solution provider. Looking ahead, it is the goal of the Group to become an integrated smartcard service provider. The business model of “smartcard service provider” represents a step ahead for the Group’s development in which the Group will operate a smartcard system, create content and interests to foster a captive community base and directly serve the users so as to obtain revenue on a transaction basis. For example, the Group may run a loyalty program of its own. The Directors believe that the Group’s solid foundation as a solution provider and system integrator will provide a good platform for the Group’s development in such direction. The Directors are of the view that the community base formed by users of a smartcard system will become intangible assets of the Group. The Directors expect that such community base could become a source of loyal clients for the Group and various services could be offered

FUTURE PLANS AND PROSPECTS

to users in such community base. By bringing unique application experience to users, the Directors believe that the smartcard service provider business will provide recurring cash flows in the long term.

STATEMENT OF BUSINESS OBJECTIVES

In light of the Group's goal to become a leading smartcard solution provider in the Asia Pacific region and with the business strategies stated above, the Directors formulated the following implementation plans. However, as the smartcard industry is currently at a fast pace of development and growth, specific business plans may be subject to changes in order to accommodate changing business environment and technologies. As set out in the implementation plans below, the Directors expect that the Group would collaborate with business partners to provide smartcard related services and participate in several types of projects in the future such as those relate to the smart ID card project expected to be launched by the Hong Kong Government. However, as at the Latest Practicable Date, the Group has not yet entered into any agreement with business partners in respect of intended collaboration and there is no assurance that the Group will reach an agreement with business partners or will be granted the relevant contracts at the timing currently expected or at all. In such event, the business plan of the Group may need to be modified and the Company will disclose the modification in accordance with the requirements of the GEM Listing Rules.

Set out below is the statement of business objectives of the Group for the period from the Latest Practicable Date to 31st March, 2003:

Implementation Plans

A tabular presentation and further details of the implementation plans of the Group's intended business objectives for each of the periods ending 31st March, 2003 is set out below.

Principal areas	Business plans	1st period	2nd period	3rd period	4th period	5th period
Key initiatives	• Explore opportunities in Hong Kong	††	††	††	††	††
	• Form alliances with technology inventors	*	#	#	†	†
	• Form alliances with smartcard and hardware manufacturers	*	#	#	†	†
	• Form alliances with companies providing synergies and technological support	††	††	††	††	††
Sales and marketing	• Expand the Group's Hong Kong sales and marketing team	*	*	#	†	††
	• Brand building activities	#	#	†	†	††
Geographical expansion	• To expand into the PRC	*	#	†	†	††
	• To expand into Taiwan		*	#	†	†
	• To expand into the US			*	#	†
	• To expand into Asia Pacific				*	#
New applications and services	• Launch solutions for social security	#	††	††	††	††
	• Launch Octopus card based solutions	*	#	††	††	††
	• Launch biometrics solutions		*	#	††	††
	• Launch RFID related solutions			*	#	††
	• Launch solutions for financial institutions				*	#
Key projects	• Octopus card project	*	#	†	††	††
	• Other smartcard projects in Hong Kong	*	#	#	†	††
	• Other smartcard projects in the Greater China		*	#	†	††
	• Hong Kong Smart ID project		*	#	††	††
	• Smartcard based loyalty program				*	#
	• Smartcard based e-commerce project				*	#

FUTURE PLANS AND PROSPECTS

Principal areas	Business plans	1st period	2nd period	3rd period	4th period	5th period
R&D	• Recruitment of additional engineers	††	††	††	††	††
	• R&D of embedded Linux system for intelligent facility management system	*	*	#	†	††
	• R&D of Octopus card based access control solution	#	†	††	††	††
	• R&D of biometrics and public key infrastructure based smartcard solution	*	#	#	†	††
	• R&D of applications and solutions for smartcard services provider business	*	*	#	†	††
	• R&D of smartcard based automatic fare collection and metering application	*	*	*	†	††
	• R&D of wireless and mobile network solutions		*	#	†	††
	• R&D of smartcard solution financial institution			#	†	††
Quality assurance	• ISO9000 quality certification	*	#	#	†	††

Legend:

- * Preparation stage
- # Implementation stage
- † Initial completion stage
- †† Ongoing development

1st period: From the Latest Practicable Date to 31st March, 2001

Key business initiatives

- Explore opportunities for smartcard applications targeted to public and private sector users in Hong Kong
- Negotiate terms of the Octopus card based access control project
- Identify smartcard services provider opportunity in Hong Kong and conduct detailed market research
- Identify technology inventors to form alliances in relation to RFID application in electronic identification, e-logistics, and MRP
- Identify smartcard and related hardware manufacturer as business partner and commence commercial negotiation in connection with an investment in and/or alliance with such partner
- Explore opportunities to acquire or form alliances with companies providing synergies and technological supports

Sales and marketing

- Expand the Group's Hong Kong sales and marketing team by recruiting additional staff members
- Continue to promote the Group's smartcard solutions to education institutions, real estate developers and property management companies in Hong Kong

FUTURE PLANS AND PROSPECTS

- Brand building activities in Hong Kong by way of print advertisement and participation in industry seminars and exhibitions

Geographical expansion

- Prepare for expansion into the PRC smartcard market by way of identifying business partners and conducting market research
- Commence negotiation with smartcard system operators in the PRC in relation to possible alliances with them

New applications and services

- Launch smartcard solution for social security

Key project

- Conduct implementation of new and existing campus smartcard projects

R&D

- Recruit additional engineers
- Evaluate technological aspects of Hong Kong smart ID card project
- Continue R&D of embedded Linux system for intelligent facility management system
- Commence trial run and fine-tuning of Octopus card based access control solution
- Commence R&D of biometrics and public key infrastructure based smartcard solutions for PC & network security application
- Commence R&D of applications and system for smartcard service provider business in Hong Kong
- Commence R&D of smartcard based automatic fare collection and metering application for mass transportation system

Quality assurance

- Commence preparation for ISO9000 quality certification

2nd period: Six months ending 30th September, 2001

Key business initiatives

- Explore opportunities for smartcard applications targeted to public and private sector users in Hong Kong
- Prepare the bid for the tender of smart ID card project of the Hong Kong Government

FUTURE PLANS AND PROSPECTS

- Commence commercial negotiation relating to smartcard services provider business opportunity in Hong Kong
- Finalise alliance arrangement with RFID technology inventor
- Finalise investment in and/or alliance with manufacturer of smartcard and related peripheral hardware products
- Explore opportunities to acquire or form alliances with companies providing synergies and technological supports

Sales and marketing

- Expansion of the Group's Hong Kong sales and marketing forces by recruiting additional staff members
- Brand building activities including placing print advertisements, and participation in relevant seminars and exhibitions in the Asia Pacific region
- Initiate sales and marketing activities in the PRC
- Commence co-marketing campaign with manufacturers of smartcard and related peripheral hardware products

Geographical expansion

- Set up branch office or other forms of presence in major cities of the PRC (including Shanghai, Guangzhou and Beijing) and Taiwan

New Services and applications

- Launch Octopus card based access control solution

Major project

- Participate in smartcard project for campus and real estate in Hong Kong

R&D

- Complete development of Octopus card based access control solution
- Launch prototype product and commence trial test on biometrics and public key infrastructure based smartcard solution for PC & network security application
- Continue technical and application development for Hong Kong smart ID card project
- Continue R&D of smartcard based automatic fare collection and metering application for mass transportation system

FUTURE PLANS AND PROSPECTS

- Continue R&D of embedded Linux solution for intelligent facility management system
- Continue R&D of solutions for smartcard services provider business
- Commence R&D of RFID based supply chain and logistics management solution
- Commence R&D of wireless and mobile network solution
- Commence R&D of smartcard solution for financial institutions
- Commence R&D of smartcard application for e-commerce, ASP, ERP solutions

Quality assurance

- Establish quality assurance system in accordance with requirements of ISO9000 quality certification

3rd period: Six months ending 31st March, 2002

Key business initiatives

- Identify opportunities for smartcard applications targeted to public and private sector users in Hong Kong
- Submit the bid for the tender of smart ID card project of the Hong Kong Government
- Identify social security and/or national ID projects in the Greater China Region
- Identify business partner to form alliances with and explore smartcard project for mass transportation system in the Asia Pacific region
- Explore opportunities to acquire or form alliances with companies providing synergies and technological supports

Sales and marketing

- Intensive sales and marketing activities in the Greater China Region
- Promote smartcard solution to large to medium sized corporations in Hong Kong

Geographical expansion

- Set up branch office or other form of presence in the US
- Form strategic alliance with services providers in the Greater China Region

FUTURE PLANS AND PROSPECTS

Key Project

- Participate in national smart ID card project and other smartcard based social security project in the Greater China Region

New applications and services

- Launch biometrics and public key infrastructure based smartcard solutions for PC & network security applications solutions
- Launch smartcard services provider business in Hong Kong

R&D

- Complete development of solutions for smartcard services provider business
- Complete development of smartcard based PC & network security solutions
- Launch prototype product and commence trial test on RFID based supply chain and logistics management solution
- Launch prototype product and commence trial test on embedded Linux solution for intelligent facility management system
- Launch prototype product and commence trial test on wireless and mobile network solution
- Launch prototype product and commence trial test on smartcard based e-commerce, ASP and ERP applications
- Continue system development of other RFID application
- Continue development of biometrics based smartcard applications and solutions
- Continue R&D of smartcard based automatic fare collection and metering application for mass transportation system
- Continue R&D of financial institution approved smartcard solution

Quality assurance

- Establish quality assurance system in accordance with requirements of ISO9000 certification

4th period: Six months ending 30th September, 2002

Key business initiatives

- Identify opportunities for smartcard applications targeted to public and private sector users in Hong Kong

FUTURE PLANS AND PROSPECTS

- Promote smartcard solutions to large to medium sized corporations
- Commence negotiation relating to smartcard services provider business in other countries in the Asia Pacific region
- Launch smartcard based e-commerce, ASP and ERP applications
- Commence commercial negotiation relating to smartcard project for mass transportation system in the Asia Pacific region
- Explore opportunities to acquire or form alliance with companies providing synergies and technological support

Sales and marketing

- Intensive marketing efforts in the US to promote smartcard and RFID related applications

Geographical expansion

- Set up branch offices or other form of presence in other countries in the Asia Pacific region

Key Project

- Participate in smartcard project for major international event and theme park in the Greater China Region

Applications and services

- Launch RFID based supply chain, e-logistics management and MRP solutions
- Launch embedded Linux solution for intelligent facility management system
- Launch wireless and mobile network solution

R&D

- Complete development of RFID based supply chain, logistics management and MRP solutions
- Complete development of embedded Linux solution for intelligent facility management system
- Complete development of wireless and mobile network solution
- Complete development of smartcard based e-commerce, ASP and ERP applications
- Launch prototype product and commence trial test on smartcard solution for financial institutions

FUTURE PLANS AND PROSPECTS

- Continue R&D of smartcard based automatic fare collection and metering application for mass transportation system

Quality assurance

- Obtain ISO9000 quality certification

5th period: Six months ending 31st March, 2003

Key business initiatives

- Identify opportunities for smartcard applications targeted to public and private sector users in the Asia Pacific region
- Promote smartcard solutions to medium to small sized corporations in Hong Kong
- Apply for approvals by relevant financial institutions for the Group's smartcard solutions
- Explore opportunities to acquire or form alliances with companies providing synergies and technological support

Sales and marketing

- Promote smartcard application in service industry such as tourism and retail
- Promote smartcard based loyalty programme

Geographical expansion

- Set up branch offices or other form of presences in other countries in the Asia Pacific region
- Promote solutions for smartcard services provider business in the Greater China Region
- Promote RFID applications in the Asia Pacific region
- Promote mass transportation related smartcard project in the Asia Pacific region

Key Project

- Launch smartcard based loyalty program
- Participate in national ID and/or social security project in the Asia Pacific region
- Participate in smartcard based automatic fare collection project for mass transportation system in the Asia Pacific region
- Participate in smartcard based e-commerce project in Hong Kong

FUTURE PLANS AND PROSPECTS

Applications and services

- Launch financial institution approved smartcard solutions

R&D

- Complete development of financial institution approved smartcard solutions

BASES AND ASSUMPTIONS

The business objectives of the Group stated above are based on the following bases and assumptions:

General assumptions

1. The Group is not materially adversely affected by any change in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong or any of the countries in which the Group carries on business or to which it exports or imports its merchandise or sources supplies.
2. The Group is not materially adversely affected by any change in bases or rates of taxation in Hong Kong or in any other places in which the Group operates or is incorporated.
3. The Group is not materially adversely affected by any change in interest rates or exchange rates from those currently prevailing.

Specific assumptions

1. The Group is not adversely affected by any of the risk factors set out in the section headed “Risk factors” in this prospectus.
2. The business objectives for any of the specified periods have been stated on the basis that they may have to be revised or adjusted by the Group from time to time in the light of factors such as changes in market conditions, market response to particular products and whether the Group has successfully achieved its stated business objectives in the preceding period or periods. It has also been assumed that the Group does not experience any significant delay in achieving its stated business objectives in any of the specified periods.
3. The Group does not encounter any significant difficulty in the R&D of any of its new products or solutions.
4. The Group does not encounter any significant problem or disruption adversely affecting its operations or business objectives in any ways, including but not limited to:
 - failure in the Group’s software and hardware systems for whatever reasons; and
 - the Group being involved in future litigation with respect to intellectual property rights and proprietary rights which disrupts the Group’s business operation.

FUTURE PLANS AND PROSPECTS

5. The smartcard industry will continue to develop and grow as anticipated and its related technology will not become obsolete.
6. Institutional smartcard projects such as smart ID card programme in Hong Kong will be executed by relevant authorities as anticipated.
7. The Hong Kong Government will continue to promote and encourage the use of smartcard.
8. Necessary co-operation and approvals are received from the Group's business partners and relevant authorities.

COST OF IMPLEMENTATION

The estimated costs for implementing the Group's business objectives until 31st March, 2003 are set out below:

	Latest Practicable Date to 31st March, 2001	For the six months ending				Total
		30th September, 2001	31st March, 2002	30th September, 2002	31st March, 2003	
			(HK\$' million)			
Sales and marketing	0.3	1.2	0.5	0.5	0.5	3.0
Geographical Expansion	0.1	5.0	4.0	1.0	1.0	12.0
R & D	0.5	10.0	9.5	2.5	2.5	25.0
Quality Assurance	0.1	0.5	0.4	0.2	0.3	1.5
Strategic Investment	0.3	5.0	6.7	1.5	1.5	15.0

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that listing on GEM will enhance the Group's profile and the Placing will expand the Group's capital base for future growth and development. The net proceeds of the Placing, after deducting related expenses (assuming the Over-allotment Option is not exercised) are estimated to be approximately HK\$28 million based on the mid-point of the stated price range of HK\$0.83 per Share. The Directors presently intend to use such net proceeds as follows:

- Approximately HK\$8 million for R&D of smartcard and RFID technological know-how and applications relating to, *inter alia*, national ID, social security, e-commerce and e-logistics;
- Approximately HK\$5 million for expanding the Group's operations in the Asia Pacific region (including the PRC) and other selected countries by way of, *inter alia*, establishment of offices and organising promotional activities in those countries;
- Approximately HK\$4 million for strategic acquisition of and/or investment in companies whose businesses are of synergistic value to the Group;

FUTURE PLANS AND PROSPECTS

- Approximately HK\$4 million for vertical integration along the smartcard value-added chain by way of, *inter alia*, investment in manufacturers of smartcard and related peripheral equipment;
- Approximately HK\$3 million for promotion and business development for new value-added services and application fields;
- Approximately HK\$1 million for expanding the Group's operations in Hong Kong by way of expansion of sales force, direct marketing and brand building activities;
- Approximately HK\$1 million for the enhancement of the Group's quality assurance system; and
- The remaining balance of approximately HK\$2 million to be used as working capital of the Group.

To the extent that the net proceeds of 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 on short term deposits with financial institutions in Hong Kong.

If the Issue Price is set below HK\$0.83, the net proceeds will accordingly be reduced and the amount to be used as working capital will accordingly be reduced.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK\$5.4 million based on the mid-point of the stated price range of HK\$0.83 per Share. The Directors will allocate this additional amount to the aforesaid areas to facilitate the implementation of the Business Plan which are set out in this section.

As set out in this section, the Directors estimated that the cost of implementation of the Business Plan up to 31st March, 2003 will be approximately HK\$56.5 million. Based on such scheduled cost of implementation and the Directors' intention to apply the net proceeds of the Placing to finance the Business Plan before utilising other financial resources, the net proceeds will be utilised by 31st March, 2002. The Directors intend to obtain further funding to meet the remaining funding requirement of approximately HK\$32.5 million (after the estimated net proceeds of approximately HK\$24 million of the Placing based on the lower end of the stated issue price range of HK\$0.73 per Share) for financing the implementation of the Business Plan principally through cashflows generated from operations and supplemented by bank financing or fund raising in the international capital and debt markets or through a combination of these methods, as considered appropriate in the circumstances. However, the Company will not be able to issue new Shares within a period of six months following the date on which dealings in the Shares commence. In the event that the Group cannot obtain sufficient funding for implementing the Business Plan, the Directors will carefully evaluate the then requirements of the Group and other relevant factors and circumstances and may revise the allocation of the resources to the above areas as appropriate. In addition, in such event, the expansion projects described in the Business Plan may be scaled up or down depending on factors such as market conditions, technology trends and financial resources available to the Group.

DIRECTORS

Executive Directors

Mr. Lau Hon Kwong, Vincent, aged 37, is an executive Director, the Chief Executive Officer and one of the founders of the Group. He is responsible for overall strategic planning and management of the Group. He has over 14 years of experience in executive management. Before founding the Group, Mr. H.K. Lau was engaged in China trade. Mr. H.K. Lau graduated from The University of Hong Kong with a first class honours Degree of Bachelor of Science in Mechanical Engineering.

Mr. George Roger Manho, aged 38, is an executive Director, Chief Operating Officer and one of the founders of the Group. He is responsible for marketing and project management of the Group. He has 13 years of experience in the control and automation industries, electrical and mechanical projects and engineering management. Before founding the Group, Mr. Manho was an electrical and mechanical engineer in an engineering consultancy company. He is a Chartered Engineer and a member of each of the Hong Kong Institute of Engineers, The Institute of Marine Engineers and The Hong Kong Institute of Marine Technology. He holds a Master degree of Engineering Studies in Mechanical Engineering from the University of Sydney and a Bachelor of Science (Engineering) degree with first class honours in Marine Engineering from the University of Newcastle Upon Tyne.

Mr. Cheng Kwok Hung, aged 38, is an executive Director and Chief Technology Officer of the Group. He joined the Group in April 1999 and is responsible for project management and R&D of the Group. Before joining the Group, Mr. Cheng was the chief engineer of an electronic company. He has 17 years of experience in R&D and production management. He is a four times winner of product design award of the Hong Kong Awards for Industry (one product design in each of 1993 and 2000 and two designs in 1997.) He holds a high diploma in Electronics Engineering from the Hong Kong Polytechnic.

Mr. Liu Hoi Wah, aged 32, is an executive Director and Chief Finance Officer of the Group. He is responsible for financial management, accounting and corporate development. He joined the Group in March 2000 and has 10 years of experience in auditing and corporate finance. Before joining the Group, Mr. Liu was a financial controller of a private group. He graduated from The London School of Economics and Political Science of the University of London with a Bachelor of Science degree, first class honours in Management Sciences. He is an associate member of each of the Institute of Chartered Accountants in England and Wales and the Hong Kong Society of Accountants. Mr. Liu is the younger brother of Mr. H.K. Lau.

Independent Non-executive Directors

Mr. Lee Peng Fei, Allen, JP, CBE, aged 60, is currently a director of a number of public companies in Hong Kong. He is also currently a member of the Commission on Strategic Development, Hong Kong SAR and a deputy of Hong Kong SAR, the 9th National People's Congress, PRC. He has taken an active role in public services. Mr. Lee holds an honorary degree of Doctor of Engineering from the Hong Kong Polytechnic University, an honorary degree of Doctor of Laws from the Chinese University of Hong Kong. Mr. Lee was appointed as the Company's independent non-executive director in December 2000.

Mr. Tsao Kwang Yung, Peter, CBE, CPM, aged 67, is currently the chairman of a private company and a director of a number of companies in Hong Kong and the United Kingdom. Mr. Tsao was the former Secretary for Home Affairs of the Hong Kong Government. He was appointed as the special envoy to Geneva in 1979. He was the head of the Trade and Industry Departments in 1981 and the head of the Government Information Services in 1983. He was appointed as the Company's independent non-executive director in December 2000.

Directors' remuneration

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 1st February, 2001 and which will continue thereafter until terminated by three months' notice in writing served by either party on the other, which notice shall not expire until after the initial fixed term of three years. Each of the executive Directors will receive a salary subject to an annual review. In addition, the executive Directors are also entitled to a fixed sum bonus equal to their one month's salary and a discretionary bonus payable to all the executive Directors at the absolute discretion of the Board. The Company's independent board of Directors will regularly review the performance and contribution of the board of executive Directors as a basis for determining the discretionary bonus to be made payable. Under the present arrangement, the aggregate of the executive Directors' remuneration in cash and in kind for the year ending 31st March, 2001 is estimated to be about HK\$1,865,000. Further details of the terms of the above service contracts are set out in the paragraph headed "Particulars of service contracts" in the section headed "Further information about Directors, management and staff" in Appendix V to this prospectus.

SENIOR MANAGEMENT

Mr. Kam Wai Tak, aged 37, is the Technical Manager of the Group. He has 13 years' experience in system and network development. Before joining the Group in February 2000, he was a R&D engineer of an electronics company for 9 years. Mr. Kam holds a Bachelor of Science degree with honours in Computer Studies from the City University of Hong Kong.

Mr. Yuk Wai Kwok, aged 35, is the Project Manager of the Group. Mr. Yuk has 10 years' experience in project management for IT industry. Before joining the Group in December 1999, he was a project manager of a computer company for 10 years.

Mr. Luk Wai Suen, aged 52, is the Senior Engineer of the Group. He has 20 years' experience in R&D of system networking. Before joining the Group in April 2000, he was the deputy chief engineer of an electronics company for 13 years. Mr. Luk holds a degree in Computer Application from 上海師範學院 (the Shanghai Institute of Education).

Mr. Chow Tak Hing, aged 41 is the Administration Manager of the Group. He oversees administration and human resources of the Group. Mr. Chow has 12 years' experience in administration. Before joining the Group in April 1998, he worked for a trading company in Hong Kong for 10 years.

AUDIT COMMITTEE

The Company has established an audit committee on 12th February, 2001 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules.

Functions of the Audit Committee

The duties of the audit committee include reviewing, in draft form, the Company's annual report and accounts, half-year report and quarterly report and providing advice and comments to the board of Directors. In this regard, members of the audit committee will liaise with the board of Directors, senior management and its qualified accountant, the Company's reporting accountants and auditors. The audit committee will also consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and give consideration to any matters that have been raised by the Company's accountant, compliance officer or auditors. Members of the audit committee are also responsible for reviewing the Company's financial reporting process and internal control system.

The audit committee comprises two independent non-executive Directors, namely Lee Peng Fei, Allen and Tsao Kwang Yung, Peter, and Mr. Liu, an executive Director. Lee Peng Fei, Allen is the chairman of the audit committee.

STAFF

As at the Latest Practicable Date, the Group had a workforce of 35 engaged in the following operations:

Accounts and Personnel	3
Sales and Marketing	2
Administration and Logistics	3
R&D and Technical	14
Project Management	<u>13</u>
Total	<u><u>35</u></u>

THE GROUP'S RELATIONSHIP WITH STAFF

The Group has not experienced any disruption of its operations due to major labour disputes in the past. The Directors consider that the Group has a good relationship with its employees. For each of the two years ended 31st March, 2000, the Group recorded zero staff turnover. For the period from 1st April, 2000 to the Latest Practicable Date, the staff turnover rate was approximately 2.9%.

REMUNERATION POLICY

The Company's policies concerning remuneration of executive Directors are:

- (a) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;
- (b) non-cash benefits may be provided to the Directors under their remuneration package; and
- (c) the executive Directors may be granted, at the discretion of the board of Directors, share options of the Company, as part of their remuneration package.

As an incentive to the sales and marketing personnel of the Group to generate more business, the sales staff of the Group are entitled to discretionary bonuses as determined by the Directors. They are provided with on-the-job training by the senior sales manager and project managers in both marketing and technical aspects. Most of the non-sales staff receive a fixed salary.

BENEFIT SCHEMES

The Group has implemented a provident fund scheme for its staff in Hong Kong in compliance with the requirements of the mandatory provident fund.

In accordance with the relevant provisions of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), the Group may be required to provide for long service payments to its employees in Hong Kong. As at the Latest Practicable Date, the Group had no obligation for long service payments to its employees in Hong Kong pursuant to the Employment Ordinance.

SHARE OPTION SCHEME

Under the Pre-IPO Share Option Scheme, certain employees, Directors (including independent non-executive Directors) and advisers of the Company have been conditionally granted options to acquire Shares. The Company has conditionally adopted the Share Option Scheme whereby full time employees and executive Directors of the Group may be granted options which entitle them to subscribe for Shares representing up to a maximum when aggregated with any securities subject to any other scheme of the Company of 30% of the Shares in issue from time to time (excluding Shares which have been duly allotted and issued pursuant to the Share Option Scheme or any other employee share option scheme). The principal terms of the Pre-IPO Share Option Scheme and the Share Option Scheme are respectively set out in the paragraphs headed “Pre-IPO share option scheme” and “Share option scheme” of Appendix V to this prospectus. The Directors believe that the Pre-IPO Share Option Scheme and the Share Option Scheme will assist the Group in its recruitment and retention of high calibre professionals, executives and employees.

SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, the following persons (without taking into account the Shares which may be taken up under the Placing or upon the exercise of the Over-allotment Option) will be interested in 10% or more of the Shares in issue immediately following completion of the Placing and the Capitalisation Issue:

Name	Number or attributable number of Shares held	Approximate percentage or attributable percentage of shareholding in the Company (%)
Rax-Comm	248,495,174 (<i>Note 1</i>)	55.84
Mr. Manho	74,071,127	16.65
Mr. H.K. Lau	248,495,174 (<i>Note 2</i>)	55.84
Mr. Cheng	256,975,674 (<i>Note 3</i>)	57.75

INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, the following corporation and persons (without taking into account the Shares which may be taken up under the Placing or upon the exercise of the Over-allotment Option) will be entitled to exercise or control the exercise of 5% or more of the voting power at the general meeting of the Company immediately prior to the date of this prospectus and are able, as a practical matter, to direct or influence the management of the Company and are accordingly regarded as Initial Management Shareholders under the GEM Listing Rules:

Name	Number or attributable number of Shares held immediately after the Placing and the Capitalisation Issue	Approximate percentage or attributable percentage of shareholding in the Company immediately after the Placing and the Capitalisation Issue (%)
Rax-Comm	248,495,174 (<i>Note 1</i>)	55.84
Mr. Manho	74,071,127	16.65
Mr. H.K. Lau	248,495,174 (<i>Note 2</i>)	55.84
Mr. Cheng	256,975,674 (<i>Note 3</i>)	57.75
Mr. H.C. Lau	42,614,254 (<i>Note 4</i>)	9.58
Ms. Lau	21,320,885 (<i>Note 5</i>)	4.79

SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS

Notes:

1. The issued share capital of Rax-Comm is owned by the following persons:

Name of shareholders	Number of shares	Approximate percentage of shareholding (%)
Mr. H.K. Lau (a)	4,621	46.21
Ms. Lau (b)	858	8.58
Mr. H.C. Lau (b)	910	9.10
Mr. Cheng (a)	<u>3,611</u>	<u>36.11</u>
Total	<u><u>10,000</u></u>	<u><u>100.00</u></u>

Notes:

- (a) Mr. H.K. Lau and Mr. Cheng are executive Directors and Initial Management Shareholders. Mr. H.K. Lau is also one of the founders of the Group.
 - (b) Ms. Lau and Mr. H.C. Lau are Initial Management Shareholders.
2. These Shares comprise 248,495,174 Shares registered in the name of Rax-Comm. Mr. H.K. Lau is interested in 46.21% of the issued share capital of Rax-Comm. Accordingly, Mr. H.K. Lau is deemed to be interested in all the Shares in which Rax-Comm is interested.
3. These Shares comprise 248,495,174 Shares registered in the name of Rax-Comm and 8,480,500 Shares registered in his name. Mr. Cheng is interested in 36.11% of the issued share capital of Rax-Comm. Accordingly, Mr. Cheng is deemed to be interested in all the Shares in which Rax-Comm is interested.
4. These Shares represent 9.10% of the 248,495,174 Shares registered in the name of Rax-Comm and 20,001,194 Shares registered in his name. Mr. H.C. Lau is interested in 9.10% of the issued share capital of Rax-Comm.
5. These Shares represent 8.58% of the 248,495,174 Shares registered in the name of Rax-Comm. Ms. Lau is interested in 8.58% of the issued share capital of Rax-Comm.

SIGNIFICANT SHAREHOLDERS

Save as disclosed herein, but taking no account of any Shares which may be taken up under the Placing or upon the exercise of the Over-allotment Option, the Directors are not aware of any person (other than those named under “Initial Management Shareholders” above) who will immediately following completion of the Placing and the Capitalisation Issue be directly or indirectly interested in 5% or more of the Shares then in issue or equity interest in any member of the Group representing 5% or more of the equity interest in such company.

UNDERTAKINGS

Each of the Initial Management Shareholders has given certain undertakings to the Company and the Sponsor (acting on behalf of the Underwriters). Particulars of the undertakings are set forth in the section headed “Underwriting” in this prospectus.

SUBSTANTIAL, INITIAL MANAGEMENT AND SIGNIFICANT SHAREHOLDERS

Each of the Initial Management Shareholders has further undertaken to the Company, the Sponsor (acting on behalf of the Underwriters) and the Stock Exchange that:

- (a) when he or she or it during a period of twelve months from the Listing Date pledges or charges any interests in the relevant securities (the “**Relevant Securities**”) (as defined in the GEM Listing Rules) he or she or it shall give prior written notice to the Company and the Sponsor of such pledge or charge together with the number of such securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details as the Company or the Sponsor may reasonably require; and
- (b) when he or she or it receives indications, either oral or written, from any pledgee or chargee that the interest of the Relevant Securities pledged or charged by him or her or it will be or has been disposed of, he or she or it shall immediately inform the Company and the Sponsor in writing of such indications of disposal.

In addition, each of the beneficial owners of Rax-Comm has undertaken to the Company and the Sponsor (acting on behalf of the Underwriters) that:

- (a) when he or she, during a period of twelve months from the Listing Date pledges or charges any securities or interests in the securities of Rax-Comm beneficially owned or controlled by him or her, he or she shall give prior written notice to the Company and the Sponsor of such pledge or charge together with the number of such securities so pledged or charged, the purpose for which the pledge or charge is made and such other relevant details as the Company or the Sponsor may reasonably require; and
- (b) when he or she receives indications, either oral or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of Rax-Comm will be or has been disposed of, he or she shall immediately inform the Company and the Sponsor in writing of such indications of disposal.

ESCROW ARRANGEMENTS

Each of the Initial Management Shareholders has undertaken to the Company, the Sponsor (acting on behalf of the Underwriters) and the Stock Exchange that he or she or it shall place with an escrow agent his or her or its Relevant Securities during the period of six months from the Listing Date (the “**First Six-Month Period**”) on terms acceptable to the Exchange.

Each of the Initial Management Shareholders has further undertaken to the Company, the Sponsor (acting on behalf of the Underwriters) and the Stock Exchange that he or she or it shall retain in escrow, for the further six months commencing from the end of the First Six-Month Period, his or her or its Relevant Securities, together with the Relevant Securities placed in escrow by the other Initial Management Shareholders, representing not less than 35% of the voting power at general meeting of the Company.

SHARE CAPITAL

HK\$

Authorised:

<u>2,000,000,000</u>	Shares	<u>20,000,000.00</u>
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HK\$

Issued and to be issued, fully paid or credited as fully paid:

34,183,360	Shares in issue	341,833.60
365,816,640	Shares to be issued under the Capitalisation Issue	3,658,166.40
<u>45,000,000</u>	Shares to be issued pursuant to the Placing	<u>450,000.00</u>
<u>445,000,000</u>	Shares	<u>4,450,000.00</u>

Notes:

Minimum Public Float

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of its issued share capital in the hands of the public which, in the case of the Company, is not less than 20%.

Assumptions

This table assumes that the Placing becomes unconditional. It takes no account of any Shares which may be issued pursuant to the Over-allotment Option and any Shares which may be allotted and issued upon the exercise of options which have been or may be granted under the Share Option Scheme and the Pre-IPO Share Option Scheme, or which may be allotted and issued under the general mandate to allot, issue and deal with Shares (see below), or which may be purchased by the Company pursuant to the share repurchase mandate (see below).

Ranking

The Placing Shares will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will qualify for all dividends or other distributions declared, paid or made on the Shares after the date of this prospectus except the Capitalisation Issue.

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in paragraph headed “Share Option Scheme” in Appendix V to this prospectus.

Under the Share Option Scheme, options to subscribe for Shares may be granted to executive directors, full-time employees of and advisors to the Group provided that the aggregate nominal value of Shares in respect of which options may be granted under the Share Option Scheme and any other outstanding schemes (including the Pre-IPO Share Option Scheme) of the Company shall not exceed, when aggregated with any Shares subject to any other share option schemes of the Company, 30% of the aggregate nominal value of all the issued Shares from time to time (excluding (a) Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme and any other schemes (including the Pre-IPO Share Option Scheme) of the Company and (b) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (a)).

SHARE CAPITAL

Pre-IPO Share Option Scheme

The Company has granted to certain Directors, employees of and advisors to the Group options under the Pre-IPO Share Option Scheme to subscribe for Shares as more particularly described in the paragraph headed “Pre-IPO Share Option Scheme” in Appendix V to this prospectus.

General mandate to allot and issue Shares

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into shares in the capital of the Company with a total nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal amount of Shares in issue immediately following the completion of the Placing and the Capitalisation Issue (including any Shares as may be issued pursuant to the exercise of the Over-allotment Option); and
- (ii) the aggregate nominal amount of Shares repurchased by the Company under the authority referred to in the paragraph headed “General mandate to purchase Shares” below.

This mandate is in addition to the power of the Directors to allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of options granted under the Share Option Scheme.

This mandate will expire:

- (i) at the conclusion of the Company’s next annual general meeting; or
- (ii) at the end of the period within which the Company is required by the Companies Law or any other applicable law or its articles of association to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Company’s shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, see the paragraph headed “Further information about the Company and its subsidiaries” in Appendix V to this prospectus.

General mandate to purchase Shares

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to purchase Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the Shares in issue immediately following the completion of the Placing and the Capitalisation Issue (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to purchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which are recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed “Repurchase by the Company of its own securities” in Appendix V to this prospectus.

SHARE CAPITAL

This mandate will expire:

- (i) at the conclusion of the Company's next annual general meeting; or
- (ii) at the end of the period within which the Company is required by the Companies Law or any other applicable law or its articles of association to hold its next annual general meeting; or
- (iii) when varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, see the paragraph headed "Further information about the Company and its subsidiaries" in Appendix V to this prospectus.

INDEBTEDNESS

Borrowings

As at 31st December, 2000, being the latest practicable date for the purpose of this indebtedness statement, the Group had finance lease obligations of HK\$52,688, of which HK\$39,516 is repayable within one year and HK\$13,172 is repayable after one year but within two years.

Contingent liabilities

As at 31st December, 2000, the Group had no outstanding contingent liabilities.

Disclaimer

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, no company within the Group had any loan capital, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 31st December, 2000.

The Directors have confirmed that save as disclosed above, there has been no material change in the indebtedness and contingent liabilities of the companies comprising the Group since 31st December, 2000.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Borrowing and banking facility

As at 31st December, 2000, the Group had no outstanding borrowings and banking facility including overdraft facilities.

Net current assets

As at 31st December, 2000, the Group had unaudited net current assets of approximately HK\$19.0 million. The unaudited current assets were approximately HK\$25.6 million in aggregate. The unaudited current liabilities were approximately HK\$6.6 million in aggregate.

Capital structure

As at 31st December, 2000, the Group had unaudited net assets of approximately HK\$20.2 million, including fixed assets of approximately HK\$1.2 million, and net current assets of approximately HK\$19.0 million.

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TRADING RECORD

The following is a summary of the combined results of the Group for the two years ended 31st March, 2000 and the five months ended 31st August, 2000. The summary is prepared on the assumption that the current structure of the Group had been in place throughout the period under review. The summary should be read in conjunction with the Accountants' Report set out in Appendix I to this prospectus.

	Year ended 31st March, 1999 HK\$	Year ended 31st March, 2000 HK\$	Five months ended 31st August, 2000 HK\$
Turnover	<u>4,712,933</u>	<u>16,535,431</u>	<u>18,056,479</u>
(Loss)/profit from operations	(713,467)	1,430,378	9,133,462
Finance cost	<u>—</u>	<u>(4,466)</u>	<u>(3,190)</u>
(Loss)/profit from ordinary activities before taxation	(713,467)	1,425,912	9,130,272
Taxation	<u>—</u>	<u>—</u>	<u>(1,200,000)</u>
(Loss)/profit attributable to shareholders	<u>(713,467)</u>	<u>1,425,912</u>	<u>7,930,272</u>
Basic (loss)/earnings per Share (Note)	<u>(0.18) cents</u>	<u>0.36 cents</u>	<u>1.98 cents</u>

Note: The calculation of the basic (loss)/earnings per share for each of the two years ended 31st March, 2000 and the five months ended 31st August, 2000 is presented here for information purposes only and based on the loss or profit attributable to shareholders during the respective periods and the assumption that 400,000,000 Shares had been in issue throughout the periods under review.

The Securities and Futures Commission has granted a waiver in relation to paragraph 27 of Part I and paragraph 31 of Part II of the Third Schedule of the Companies Ordinance. The Group is therefore only required to include in this prospectus the trading record, financial results and information covering the two financial years immediately preceding the issue of this prospectus — see the paragraph headed “Exemption from Compliance with the Companies Ordinance” under the section headed “Waivers from compliance with the GEM Listing Rules and the Companies Ordinance” of this prospectus.

Overview

During each of the two years ended 31st March, 2000 and the five months ended 31st August, 2000, the Group's turnover grew in accordance with the number of contracts obtained and the expansion of its range of solutions. During the period, the Group recorded significant growth in

FINANCIAL INFORMATION

turnover, where there was approximately four times increase in turnover for the year ended 31st March, 2000, as compared to the previous year. At the same time, the Group turned profitable in the year ended 31st March, 2000. During the five months ended 31st August, 2000, the Group recorded further growth both in terms of turnover and profit attributable to shareholders.

Taxation

The Group's profit arising in or derived from Hong Kong are subject to Hong Kong Profits Tax. Provision for Hong Kong Profits Tax has been calculated at the applicable rate of 16% for each of the two years ended 31st March, 2000, and the five months ended 31st August, 2000, on the estimated assessable profits of the Group's companies operating in Hong Kong.

Financial year ended 31st March, 1999

For the year ended 31st March, 1999, the Group recorded a turnover of approximately HK\$4,713,000.

Loss from operations for the year amounted to approximately HK\$713,000. Operating expenses comprised mainly staff costs, depreciation charges, office rental and rates, and office expenses.

During the year, the Group recorded loss attributable to shareholders of approximately HK\$713,000.

Financial year ended 31st March, 2000

For the year ended 31st March, 2000, the Group recorded a turnover of approximately HK\$16,535,000. The increase in turnover was principally due to increase in number of projects undertaken by the Group.

Profit from operations for the year amounted to approximately HK\$1,430,000, representing an operating profit margin of approximately 8.7%. The increase in the operating margin was principally due to savings arising from the economies of scale and in development costs due to the software library accumulated in earlier development.

Operating expenses (including mainly staff costs and depreciation) for the year increased by approximately 120% as compared to the previous financial year, which is principally due to the expansion of operation and increase in staff costs. During the year, 11 additional technical staff members were recruited. As at 31st March, 2000, the Group had 16 staff members.

During the year, the Group recorded profit attributable to shareholders of approximately HK\$1,426,000, as compared to loss incurred in the previous year.

During the year, no provision for Hong Kong Profits Tax was made as the tax losses brought forward from previous years exceeded the estimated assessable profits of the Group for that year.

The five months ended 31st August, 2000

For the five months ended 31st August 2000, the Group recorded a turnover of approximately HK\$18,056,000, representing approximately 2.6 times of the previous year on an annualised basis. The increase in turnover was principally due to increase in number of projects undertaken by the Group.

FINANCIAL INFORMATION

Profit from operations for the period amounted to approximately HK\$9,133,000, representing an operating profit margin of 50.6%. The increase in the operating margin represents further achievements in economies of scale and savings in development costs due to the continued expansion of the software library. Operating expenses increased by approximately 37% as compared to the previous financial year on an annualised basis, which is principally due to increase in staff costs. During the period, 12 additional staff members were recruited. As at 31st August, 2000, the Group had 28 staff members.

During the five month period, the Group recorded profit attributable to shareholders of approximately HK\$7,930,000, which represents an increase of approximately 13 times when compared to the previous financial year on an annualised basis.

During the period, the effective tax rate was lower than the applicable statutory tax rate of 16% due to utilisation of tax losses brought forward from previous periods.

DIVIDEND POLICY

The Directors currently do not propose to recommend payment of any dividends for the six months ending 31st March, 2001. The amount of any dividends to be declared in future will depend on, inter alia, the Company's results from operations, cash flows and financial condition, operating and capital requirements. The Directors expect that interim and final dividends will be paid in around November and July of each year, and that the interim dividend will normally represent approximately one-third of the expected total dividends for the full year.

PROPERTY INTERESTS

At present, the Group leased and licensed the following premises in Hong Kong from independent third parties.

Address	Name (date) of Agreement	Term	Monthly rental/ licence fee	Approximate gross floor area (sq.m.)	Usage
Unit 2001 with two storerooms 20th Floor Stelux House No. 698 Prince Edward Road East Kowloon Hong Kong	Tenancy Agreement (24th November, 1999)	2 years commencing from 15th November, 1999 and expiring on 14th November, 2001 with an option to renew for a further term of 1 year at the then market rent	HK\$26,572 exclusive of rates, Government rent and management charges	430	Office
Portion of Units Nos. 2601-4, 26th Floor, Tower I Admiralty Centre 18 Harcourt Road Hong Kong	Licence Agreement (18th December, 2000)	2 years commencing from 1st December, 2000 and expiring on 30th November, 2002	HK\$84,000 exclusive of rates and service charges	279	Office

PROPERTY VALUATION

Greater China Appraisal Limited, an independent property valuation firm, has valued the properties leased and licensed by the Group and is of the opinion that such properties have no commercial value as at 31st December, 2000. The text of its letter, summary of values and valuation certificate are set out in Appendix III to this prospectus.

DISTRIBUTABLE RESERVES

As at 31st August, 2000, the Company had not been incorporated. There were, accordingly, no reserve available for distribution to the shareholders of the Company as at that date.

WORKING CAPITAL

The Directors are of the opinion that, taking into account the internally generated resources of the Group and the estimated net proceeds from the issue of Shares under the Placing, the Group has sufficient working capital for its present requirements.

FOREIGN EXCHANGE RISK

Since most of the income and expenditure of the Group prior to the Latest Practicable Date were denominated in Hong Kong dollars, and most of the assets and liabilities as at the Latest Practicable Date were denominated in Hong Kong dollars, the Directors are of the view that the Group is not significantly exposed to any foreign currency exchange risk.

RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, the Group was 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.

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ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net tangible assets of the Group as at 31st August, 2000, as shown in the accountants' report set out in Appendix I to this prospectus, adjusted as described below:

	<i>HK\$'000</i>
Audited combined net tangible assets of the Group as at 31st August, 2000	9,676
Net proceeds from allotment and issue of new shares to the strategic investors (<i>Note 1</i>)	11,500
Dividend payment for the six months ended 30th September, 2000	(3,418)
Unaudited combined profit after taxation of the Group for the four months ended 31st December, 2000, as extracted from the unaudited management accounts	4,421
Estimated net proceeds from the Placing (<i>Note 2</i>)	<u>28,000</u>
Adjusted net tangible assets	<u><u>50,179</u></u>
Adjusted net tangible assets value per Share (<i>Note 3</i>)	<u><u>HK\$0.11</u></u>

Notes:

1. The strategic investors comprise Fullworth Asia Limited, Sanbar Development Corporation S.A., Mr. Pruemmm and Mr. Roessner. Details of these strategic investors and their investment in the Company are set out in the paragraph headed "Strategic Investors" under the section headed "General Overview of the Group".
2. The calculation of net proceeds of the Placing is based on an Issue Price of HK\$0.83 per Share (being the mid-point of the stated price range of the Issue Price of between HK\$0.73 and HK\$0.93 per Share) and 45,000,000 Shares to be offered under the Placing but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Company will receive additional net proceeds of approximately HK\$5.4 million based on the mid-point of the stated price range of HK\$0.83 per share.
3. The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 445,000,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be issued upon exercise of the Over-allotment Option or any options granted or may be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme or which may be allotted and issued or repurchased by the Company pursuant to the mandates described in the paragraph headed "Resolutions in writing of all shareholders of the Company passed on 12th February, 2001" in Appendix V to this prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of the Group since 31st August, 2000, being the date to which the latest audited financial statements of the Group were made up.

PROFIT FORECAST

The Directors forecast that, on the bases and assumptions set out in Appendix II to this prospectus and in the absence of unforeseen circumstances, the combined profit after taxation but before extraordinary items of the Group for the year ending 31st March, 2001 will amount to not less than HK\$15 million. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31st March, 2001.

On the basis of the above profit forecast and the weighted average number of 376,096,764 Shares expected to be in issue during the year ending 31st March, 2001, the forecast earnings per Share on a weighted average basis will be 3.99 cents, representing a weighted average price/earnings multiple of 18.3 times based on an Issue price of HK\$0.73 or 23.3 times based on an Issue Price of HK\$0.93. It does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option.

On the basis of the above profit forecast and on the assumptions that (i) the Company had been listed since 1st April, 2000, (ii) a total of 445,000,000 Shares were issued on 1st April, 2000, and (iii) the net proceeds of the Placing had been received on 1st April, 2000 and interest had been earned thereon at a rate (net of tax) of 5% per annum from that date up to the expected date of receipt of the net proceeds of the Placing, the forecast earnings per Share on a pro forma fully diluted basis will be 3.65 cents, representing a pro forma fully diluted price/earnings multiple of 20.0 times based on an Issue Price of HK\$0.73 or 25.5 times based on an Issue Price of HK\$0.93. It does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option.

The texts of the letters from KPMG, the auditors and reporting accountants, and from the Sponsor in respect of the profit forecast are set out in Appendix II to this prospectus.

UNDERWRITERS

Vickers Ballas
KGI Asia Limited
Celestial Capital Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares for subscription by way of Placing, subject to the terms and conditions of this prospectus. Subject, among other things, to listing of and permission to deal in the Shares in issue and to be issued as mentioned herein being granted by the GEM Listing Committee, and the fulfillment of certain other conditions set out in the Underwriting Agreement, in each case on or before 17th March, 2001, the Underwriters have severally agreed to procure placees for the Placing Shares and have agreed to subscribe/purchase or procure subscribers/purchasers for any Placing Shares not taken up by placees under the Placing which have not been subscribed for or placed pursuant to the Placing.

Grounds for termination

The obligations of the Underwriters to subscribe, or procure subscribers are subject to termination if certain events, including force majeure, shall occur prior to 8:45 a.m. on the date of despatch of Share certificates. The Underwriters are entitled to terminate their obligations under the Underwriting Agreement with immediate effect by giving written notice to the Company at any time prior to such time if the following events shall have occurred:

1. there should develop, occur, exist or come into effect in any of the followings:
 - (i) any event, or series of events, beyond the control of the Underwriters (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of war, acts of God or accident) which in the opinion of the Sponsor (for itself and on behalf of the Underwriters) has or is likely to have the effect of making any part of the Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of subscriptions and/or payments pursuant to the Placing or pursuant to the underwriting thereof; or
 - (ii) any change (whether or not permanent) in local, national, international, financial, economic, stock market, political, military, industrial, fiscal, regulatory or market conditions and matters and/or disasters (including any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange) which in the opinion of the Sponsor (for itself and on behalf of the Underwriters) would or may materially affect the outcome of Placing; or

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- (iii) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the BVI, the Cayman Islands or any other jurisdiction relevant to the Company and its Subsidiaries or any similar event which in the opinion of the Sponsor (for itself and on behalf of the Underwriters) has and is likely to have a material adverse effect on the business or financial condition or prospects of the Group or which may be expected to materially adversely affect the business or financial condition or prospect of the Group; or
 - (iv) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the BVI, the Cayman Islands or any other jurisdiction to which any member of the Group is subject or the implementation of any exchange controls which in the opinion of the Sponsor (for itself and on behalf of the Underwriters) would or might materially and adversely affect any member of the Group or its present or prospective shareholders in their capacity as such, to the extent that the outcome of the Placing would or may be materially affected; or
 - (v) any litigation or claim of material importance to the business, financial or operation of the Group being instigated by any third party against any member of the Group;
2. there comes to the notice of the Sponsor (on behalf of the Underwriters):
- (i) that any statement in the opinion of the Sponsor (for itself and on behalf of the Underwriters) considered to be material, contained in this prospectus was when any of such documents were issued, or has become, untrue, incorrect or misleading in any respect; or
 - (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom, in the opinion of the Sponsor (for itself and on behalf of the Underwriters), considered to be material; or
 - (iii) any breach, in the opinion of the Sponsor (for itself and on behalf of the Underwriters), considered to be material, of any of the warranties contained in the Underwriting Agreement; or
 - (iv) any material breach of any of the obligations imposed upon any party to the Underwriting Agreement (other than on any of the Underwriters); or
 - (v) any adverse change in the business or in the financial or trading position of any member of the Group which is material in the context of the Placing.

Undertakings

Each of the Initial Management Shareholders has jointly and severally undertaken with the Company, the Sponsor and the Underwriters that, save as permitted by Rule 13.17 of the GEM Listing Rules (a) he, she and it will not, and will procure that none of his, her or its associates (as defined in

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the GEM Listing Rules) or companies controlled by him, her or it will, within the period of six months from the date on which dealings in the Shares first commence on the Stock Exchange (the “First Six Month Period”), dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) or create (or enter into any agreement to create) any rights over any of the Shares or any interests therein owned by him, her or it or in which he, she, or it, is directly or indirectly interested immediately after completion of the Placing or dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) or create (or enter into any agreement to create) any rights over any shares in any company controlled by him, her or it which is the beneficial owner of any of such Shares or any such interests except such disposal is made pursuant to the stock borrowing arrangement as referred to under the paragraph “Stock Borrowing Arrangements” in the section “Waivers from compliance with the GEM Listing Rules and the Companies Ordinance” of this prospectus; and (b) within a further six months commencing on the expiry of the First Six Month Period (the “Second Six Month Period”), he, she or it will not, and will procure that none of his, her or its associates (as defined in the GEM Listing Rules) or the companies controlled by him, her or it will, dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) or create (or enter into any agreement to create) any rights over any Shares or any interests therein or dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) or create (or enter into any agreement to create) any rights over any shares in any company controlled by him, her or it which is the beneficial owner of such Shares or such interests if, immediately following such disposal or creation of rights, the Initial Management Shareholders, taken together, would, directly or indirectly, cease to control 35% or more of the voting rights at general meetings of the Company. In addition, each of the Initial Management Shareholders has undertaken with the Company, the Sponsor and the Underwriters that in the event of any disposal of Shares or any such interests referred to in paragraph (b) above after the First Six Month Period, all reasonable steps will be taken to ensure that such disposal will not create a false or disorderly market in the Shares.

The Company has undertaken to and covenanted with the Sponsor and the Underwriters that, and each of the Initial Management Shareholders has undertaken to and covenanted with the Sponsor and the Underwriters that, the Company and its major subsidiaries will not, save pursuant to the Placing, the Capitalisation Issue, the Over-allotment Option, the grant of any option under the Share Option Scheme or the Pre-IPO Share Option Scheme or the issue of Shares upon the exercise of the Over-allotment Option or any option granted under the Share Option Scheme or the Pre-IPO Share Option Scheme, (a) within the First Six Month Period, issue or agree to issue any Shares or securities in the Company or any such major subsidiaries or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for any securities of the Company or any such major subsidiaries; and (b) at any time during the Second Six Month Period, issue or grant any options or right to subscribe or otherwise convert into or exchange for Shares or securities in the Company or any of its major subsidiaries so as to result in the Initial Management Shareholders together ceasing to be a controlling shareholder (within the meaning of the GEM Listing Rules) of the Company or the Company ceasing to hold a controlling interest of 35% or more in any such major subsidiaries.

Each of the Initial Management Shareholders further undertakes to the Company, the Sponsor and the Underwriters that during the First Six Month Period and the Second Six Month Period (a) if he, she or it pledges/charges any interests in the Relevant Securities (as defined in the GEM Listing

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Rules), he, she or it shall immediately give prior written notice to the Company and the Sponsor of such pledges/charges together with, the number of securities so pledged/charged, the purpose for which the pledge or charge is made and such other relevant details as the Company or the Sponsor may reasonably require; and (b) when he, she or it receives indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged interests in the Relevant Securities by him, her or it will be or has been disposed of, he, she or it will immediately inform the Company and the Sponsor in writing of such indications of disposal. The Company undertakes to the Sponsor, the Underwriters and the Stock Exchange to immediately inform the Sponsor and the Stock Exchange of the matters referred to in paragraph (a) or (b) above and publish a press announcement thereof immediately upon receipt of all material information relating thereto.

Each of Mr. H.K. Lau, Mr. Cheng, Ms. Lau and Mr. H.C. Lau, being the shareholders of Rax-Comm, jointly and severally undertakes to the Company and the Sponsor (acting on behalf of the Underwriters) that during the First Six Month Period and the Second Six Month Period (a) if he or she pledges/charges any securities or interests in the securities of Rax-Comm beneficially owned or controlled by him or her, he or she shall immediately give prior written notice to the Company and the Sponsor of such pledges/charges together with the number of securities so pledged/charged, the purpose for which the pledge or charge is made and such other relevant details as the Company or the Sponsor may reasonably require; and (b) when he or she receives indications, either verbal or written, from the pledgee/chargee that any of the pledged/charged securities or interests in the securities of Rax-Comm will be or has been disposed of, he or she will immediately inform the Company and the Sponsor in writing of such indications of disposal. The Company undertakes to the Sponsor (acting on behalf of the Underwriters) to immediately inform the Sponsor of the matters referred to in paragraph (a) or (b) above.

Each of Fullworth Asia Limited, Sanbar Development Corporation S.A., Mr. Pruehm and Mr. Roessner has undertaken to the Company, the Stock Exchange and the Sponsor that it or he will not dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) its or his direct or indirect interests in the Company during First Six Month Period.

Commission

The Underwriters will receive a commission of 2.5% on the Issue Price per Share, out of which they will, as the case may be, pay any sub-underwriting commissions. The Sponsor will, in addition, receive a documentation fee. The underwriting commission, documentation fee, Stock Exchange listing fees and transaction levy, legal and other professional fees together with applicable printing and other expenses relating to the Placing are estimated to amount to approximately HK\$9.35 million in total.

Underwriters' interest in the Company

Save for its obligations under the Underwriting Agreement and the Sponsor's interests as disclosed below, none of the Underwriters has any shareholding interest in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Sponsors' interest in the Company

On 23rd November, 2000, the Sponsor and the Company entered into a sponsor's agreement pursuant to which the Sponsor will fulfill their continuing obligations as sponsor under paragraph 6.50 to 6.58 of the GEM Listing Rules, including acting as the channel of communications with the Stock Exchange on behalf of the Company and deal with all matters arising in relation to the Company which are raised by the Stock Exchange for a period from the Listing Date to 31st March 2003 subject to terms and conditions contained therein.

Save for Sponsor's interests and obligations under the Underwriting Agreement and save as disclosed in this prospectus:

- (i) none of the Sponsor or any of its associates is interested beneficially or non-beneficially in any shares in any member of the Group nor has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any share in any member of the Group;
- (ii) none of the directors or employees of the Sponsor which are involved in providing advice to the Company has or may, as a result of the Placing, have 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);
- (iii) neither the Sponsor nor any of its associates has 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, management commission and documentation fee by Sponsor; and
- (iv) none of the directors or employees of the Sponsor has a directorship in the Company or any other company in the Group.

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DETERMINING THE ISSUE PRICE

The Issue Price is expected to be fixed on or around 16th February, 2001, or on a date which is no later than 20th February, 2001 by agreement between Vickers Ballas (on behalf of the Underwriters) and the Company with reference to market demand for the Shares.

The Sponsor, on behalf of the Underwriters, may with the consent of the Company reduce the Issue Price to a price below the range stated in this prospectus (which is HK\$0.73 to HK\$0.93 per Share) (the “Indicative Price Range”) on or before 20th February, 2001. In such case, notice of reduction in the Issue Price will be published on the GEM website (in English and Chinese) not later than the morning of 20th February, 2001.

If Vickers Ballas (on behalf of the Underwriters) and the Company are unable to reach agreement on the Issue Price on or before 20th February, 2001, the Placing will not become unconditional and will not proceed.

An announcement of the Issue Price is expected to be published on 20th February, 2001.

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A total of 45,000,000 Placing Shares are initially being offered for subscription at the Issue Price under the Placing. Pursuant to the Placing, it is expected that the Underwriters, on behalf of the Company will conditionally place the Placing Shares at the Issue Price plus 1% brokerage and 0.01% Stock Exchange transaction levy. The Placing is arranged by Vickers Ballas and fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement and this prospectus.

The Placing is subject to the same conditions as stated in the paragraph headed “Conditions of the Placing” below.

(i) *Placing to professional, institutional and other investors*

Subject to reallocation, 40,500,000 Placing Shares, representing approximately 90% of the Placing Shares initially offered by the Company are to be placed with selected professional, institutional and other investors. Professional, institutional and other investors generally include high networth individuals and brokers, dealers and fund managers, whose ordinary course of business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of Placing Shares (other than those Placing Shares which have been placed to full-time employees of the Group) to investors pursuant to the Placing is based on a number of factors including the level of demand and whether or not it is expected that the relevant investor is likely to buy further Shares, or hold or sell its Shares, after the listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole.

STRUCTURE OF THE PLACING

(ii) *Preference to full-time employees*

Subject to reallocation, 4,500,000 Placing Shares, representing approximately 10% of the Placing Shares initially available under the Placing will be placed with full-time employees of the Group (excluding Directors, chief executive of the Company, existing beneficial owners of Shares and their respective associates) at the Issue Price under the Placing.

Vickers Ballas has the right in its absolute discretion to re-allocate all or any of the unallocated Shares under this portion of the Placing to professional, institutional and other investors.

CONDITIONS OF THE PLACING

Acceptance of all applications for the Placing Shares is conditional upon:

1. Listing

the GEM Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; and

2. Underwriting agreement

the obligations of the Underwriters under the Underwriting Agreement becoming unconditional, and not being terminated, prior to allotment and issue of the Placing Shares. Details of the Underwriting Agreement, its conditions and grounds for termination, are set out in the section headed "Underwriting" of this prospectus.

If these conditions are not fulfilled on or before 17th March, 2001, all application monies will be returned, without interest.

OVER-ALLOTMENT OPTION

Pursuant to the Underwriting Agreement, the Company has granted to Vickers Ballas a right (but not an obligation) to exercise the Over-allotment Option, which is exercisable no earlier than the Price Determination Date and will expire at 5:00 p.m. on the 30th day from the date of this prospectus, to require the Company to issue up to an aggregate of 6,750,000 additional Shares, representing 15% of the number of Shares initially available under the Placing. These Shares will be issued at the Issue Price for the purpose of covering over-allocations in the Placing, if any.

In order to facilitate settlement of over-allocations in connection with the Placing pending exercise of the Over-allotment Option, a stock borrowing arrangement has also been entered into between Vickers Ballas and Rax-Comm.

Pursuant to this arrangement, Rax-Comm has agreed that, if so requested by Vickers Ballas, Rax-Comm will lend to Vickers Ballas up to 6,750,000 Shares on the following terms:

- (i) the borrowed Shares will only be used to settle over-allocations in the Placing; and

STRUCTURE OF THE PLACING

- (ii) the same number of Shares must be returned to Rax-Comm, not later than three business days following the earlier of (a) the date on which the Over-allotment Option is exercised in full and (b) the last day on which the Over-allotment Option may be exercised and redeposited with an escrow agent as soon as practicable.

An application has been made to the Stock Exchange for a waiver from strict compliance with Rule 13.16 of the GEM Listing Rules which restricts the disposal of Shares by Rax-Comm for the period of two years from the date of listing of the Shares on GEM (which has been granted to the effect that such period and details of such waiver are set out in the section headed “Waivers from compliance with the GEM Listing Rules and the Companies Ordinance” in this prospectus), in order to allow Rax-Comm to enter into this stock borrowing arrangement. Vickers Ballas may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or by a combination of purchases in 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.

STABILISATION

In connection with the Placing, Vickers Ballas may over-allot up to an aggregate of 6,750,000 additional Shares (such over-allocations may be covered by exercising the Over-allotment Option in full or in part, at any time up to 30 days from the date of this prospectus or by purchasing Shares in the secondary market) and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail but which are not higher than the Issue Price. Any such over-allocation purchase transactions will be made in compliance with all applicable laws.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public issue prices of the securities. Such 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.

In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where the underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allocation in the relevant offer. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of the Placing Shares, they will be done at the absolute discretion of Vickers Ballas. The stabilisation price to cover the over-allocation will not normally be higher than the Issue Price. Relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM is expected to commence on Wednesday, 21st February, 2001.

The Shares will be traded in board lots of 4,000 Shares each.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares on GEM and the Company complies with the stock admission requirements of Hongkong Clearing, the Shares will be accepted as eligible securities by Hongkong Clearing for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or on any other date as determined by Hongkong Clearing. 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. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

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

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, from the auditors and reporting accountants of the Company, KPMG, Certified Public Accountants.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

15th February, 2001

The Directors
ITE (Holdings) Limited
Vickers Ballas Capital Limited

Dear Sirs,

We set out below our report on the financial information relating to ITE (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the two years ended 31st March, 2000 and the five months ended 31st August, 2000 (the "relevant period") for inclusion in the prospectus of the Company dated 15th February, 2001 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 6th November, 2000 as an exempted company with limited liability under the Companies Law (2000 Revision) of the Cayman Islands for the purpose of acting as the holding company of the subsidiaries now comprising the Group, details of which are set out in section 1 below. The Company has not carried out any business since the date of its incorporation save for the acquisition of the subsidiaries as detailed in the subsection headed "Group reorganisation" of Appendix V to the prospectus.

We have examined the audited financial statements or unaudited management accounts of the companies comprising the Group for the relevant period (or where the companies were incorporated at a date later than 1st April, 1998, for the period from their respective dates of incorporation to 31st August, 2000) in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

We have acted as auditors of the companies now comprising the Group for the relevant period except as indicated in section 1 below. No audited financial statements have been prepared for the companies comprising the Group, except for ITE Smartcard Solutions Limited (formerly known as CNA Limited), as they are newly incorporated and have not carried out any business since incorporation other than the transactions related to the reorganisation. We have, however, reviewed all significant transactions of these companies from their respective dates of incorporation to 31st August, 2000 for the purpose of this report. We have not audited any financial statements of the companies comprising the Group in respect of any period subsequent to 31st August, 2000.

The directors of the respective companies of the Group are responsible for preparing financial statements which give a true and fair view. In preparing these financial statements it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

The summaries of the combined results of the Group for the relevant period and the combined net assets of the Group as at 31st August, 2000 (the "Summaries") set out below are based on the audited financial statements or, where appropriate, the unaudited management accounts of the companies comprising the Group on the basis set out in section 1 below.

The directors are responsible for the preparation of the Summaries. It is our responsibilities to form an independent opinion on the Summaries.

In our opinion, on the basis of presentation set out in section 1 below, the Summaries together with the notes thereon, for the purpose of this report, give a true and fair view of the combined results of the Group for each of the two years ended 31st March, 2000 and the five months ended 31st August, 2000 and of the combined net assets of the Group as at 31st August, 2000 and have been properly prepared in accordance with accounting principles generally accepted in Hong Kong.

1. BASIS OF PRESENTATION

The summary of the combined results of the Group for the relevant period includes the results of the companies comprising the Group (for the period from 1st April, 1998 or the date of incorporation, if later, to 31st August, 2000) as if the current group structure had been in existence and remained unchanged throughout the entire relevant period. The summary of the combined net assets of the Group as at 31st August, 2000 has been prepared to present the assets and liabilities of the Group as if the current group structure had been in existence as at that date.

All material intra-group transactions and balances have been eliminated on combination.

The particulars of the Company's subsidiaries, all of which are private companies, as at the date of this report are set out below:

Name of the company	Place and date of incorporation	Attributable equity interest %		Issued and fully paid capital	Principal activities
		Direct	Indirect		
ITE (BVI) Limited (note i)	The British Virgin Islands 31st October, 2000	100	—	US\$20,000	Investment holding
ITE Smartcard Solutions Limited (formerly known as CNA Limited) (note ii)	Hong Kong 19th March, 1992	—	100	HK\$3,418,336	Provision of smartcard systems and related services

Name of the company	Place and date of incorporation	Attributable equity interest %		Issued and fully paid capital	Principal activities
		Direct	Indirect		
ITE Engineering Limited (<i>note i</i>)	Hong Kong 1st September, 2000	—	100	HK\$2	Project management
ITE Investment Limited (<i>note i</i>)	Hong Kong 4th September, 2000	—	100	HK\$2	Investment holding
RF Tech Limited (<i>note i</i>)	Hong Kong 4th September, 2000	—	100	HK\$2	Provision of radio frequency identification (RFID) and wireless applications and solutions
Rainbow Spirit Limited (<i>note i</i>)	Hong Kong 29th September, 2000	—	100	HK\$2	Provision of smartcard services
Nat-Id Limited (<i>note i</i>)	Hong Kong 1st September, 2000	—	100	HK\$2	Provision of social security and national identity smartcard solutions

Notes:

- (i) No audited financial statements have been prepared since the incorporation of this company.
- (ii) The financial statements of this company for the year ended 31st March, 1999 were audited by Anthony Kam & Co, a firm of Certified Public Accountants in Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

The Summaries have been prepared in accordance with the accounting policies set out below. These accounting policies conform with all applicable Statements of Standard Accounting Practice and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Listing Rules of the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”) as applicable to accountants’ reports for inclusion in Listing Documents.

(a) Fixed assets and depreciation*(i) Valuation*

Fixed assets are stated at cost less accumulated depreciation. The carrying amount of fixed assets is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised as an expense in the profit and loss account. In determining the recoverable amount, expected future cash flows generated by the fixed assets are not discounted to their present values.

When the circumstances and events that led to the write-down or write-off cease to exist, any subsequent increase in the recoverable amount of an asset is written back to the profit and loss account. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

(ii) Depreciation

Depreciation is calculated to write off the cost of fixed assets on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Shorter of 4 years and the unexpired terms of the leases
Furniture and fixtures	4 years
Office, computer and other equipment	4 years
Motor vehicles	4 years

(iii) Disposals

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss account on the date of retirement or disposal.

(b) Leased assets

Where assets are acquired under finance leases, the amounts representing the outright purchase price, which approximate the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the costs of the assets over the estimated useful lives of the assets as set out in note 1(a) above.

Finance charges implicit in the lease payments are charged to the profit and loss account over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

(c) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss account as follows:

(i) *Service revenue*

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognised using the percentage of completion method, measured by reference to the percentage of costs incurred to date to estimated total costs for the services.

When the outcome cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that it is probable will be recoverable.

(ii) *Interest income*

Interest income from bank deposits is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

(d) Inventories

Raw materials are stated at the lower of cost and net realisable value.

Cost is calculated on the first in first out basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the raw materials 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 in rendering services.

When inventories are consumed in rendering services, 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 an expense in the period the write-down or loss occurs. 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.

(e) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future.

Future deferred tax benefits are not recognised unless their realisation is assured beyond reasonable doubt.

(f) Translation of foreign currencies

Foreign currency transactions during the period are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the profit and loss account.

(g) Operating leases

Rental payable under operating leases are accounted for in the profit and loss account on a straight-line basis over the periods of the respective leases.

(h) Warranty costs

Warranty costs are charged to the profit and loss account as and when incurred.

(i) Related parties

For the purpose of this report, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

3. COMBINED RESULTS

The following is a summary of the combined results of the Group for the relevant period prepared on the basis set out in section 1 above:

		Year ended 31st March, 1999 HK\$	Year ended 31st March, 2000 HK\$	Five months ended 31st August, 2000 HK\$
Turnover	(a)	4,712,933	16,535,431	18,056,479
Other revenue	(b)	2,445	596	1,340
Other net loss	(b)	—	(2,804)	—
Cost of services rendered		(3,655,968)	(11,205,385)	(6,698,348)
Staff costs		(702,436)	(2,746,425)	(1,501,313)
Depreciation		(47,730)	(234,285)	(159,310)
Other operating expenses		<u>(1,022,711)</u>	<u>(916,750)</u>	<u>(565,386)</u>
(Loss)/profit from operations		(713,467)	1,430,378	9,133,462
Finance cost		<u>—</u>	<u>(4,466)</u>	<u>(3,190)</u>
(Loss)/profit from ordinary activities before taxation	(c)	(713,467)	1,425,912	9,130,272
Taxation	(d)	<u>—</u>	<u>—</u>	<u>(1,200,000)</u>
(Loss)/profit attributable to shareholders		<u>(713,467)</u>	<u>1,425,912</u>	<u>7,930,272</u>

Notes:

(a) Turnover

Turnover represents service revenue arising from the provision of smartcard systems and related services, after eliminating intra-group transactions.

(b) Income

	Year ended 31st March, 1999 HK\$	Year ended 31st March, 2000 HK\$	Five months ended 31st August, 2000 HK\$
Other revenue			
Interest on bank deposits	<u>2,445</u>	<u>596</u>	<u>1,340</u>
Other net loss			
Loss on disposal of fixed assets	<u>—</u>	<u>(2,804)</u>	<u>—</u>

(c) (Loss)/profit from ordinary activities before taxation

(Loss)/profit from ordinary activities before taxation is arrived at after charging:

	Year ended 31st March, 1999 HK\$	Year ended 31st March, 2000 HK\$	Five months ended 31st August, 2000 HK\$
Finance cost			
Finance charges on obligations under finance leases	—	4,466	3,190
Other items			
Auditors' remuneration	7,000	80,000	33,000
Operating lease charges	264,000	304,321	200,626

(d) Taxation

Taxation represents:

	Year ended 31st March, 1999 HK\$	Year ended 31st March, 2000 HK\$	Five months ended 31st August, 2000 HK\$
Provision for Hong Kong Profits Tax	—	—	1,200,000

No provision for Hong Kong Profits Tax has been made for the year ended 31st March, 1999 as the Group did not have assessable profits subject to Hong Kong Profits Tax for that year. No provision for Hong Kong Profits Tax has been made for the year ended 31st March, 2000 as the tax losses brought forward from prior years exceeded the estimated assessable profits of the Group for that year. The provision for Hong Kong Profits Tax is calculated at 16% of the estimated assessable profits for the five months ended 31st August, 2000, after taking account of tax losses brought forward from prior years.

No provision for deferred taxation has been made as the effect of all timing differences is immaterial.

(e) Directors' remuneration

Details of directors' remuneration are as follows:

	Year ended 31st March, 1999 HK\$	Year ended 31st March, 2000 HK\$	Five months ended 31st August, 2000 HK\$
Fees	—	—	—
Basic salary, allowances and other benefits	202,500	1,080,000	675,000
Discretionary bonuses	—	—	—
Retirement benefits	—	—	—
	<u>202,500</u>	<u>1,080,000</u>	<u>675,000</u>

The remuneration of the directors falls within the following bands:

	Year ended 31st March, 1999 HK\$	Year ended 31st March, 2000 HK\$	Five months ended 31st August, 2000 HK\$
HK\$Nil – HK\$1,000,000	<u>5</u>	<u>8</u>	<u>4</u>

One of the directors received remuneration of HK\$202,500 for the year ended 31st March, 1999, with the other four directors receiving nil remuneration for that year. Two of the directors received remuneration of HK\$540,000 each for the year ended 31st March, 2000, with the other six directors receiving nil remuneration for that year. Three of the directors received remuneration of HK\$225,000 each for the five months ended 31st August, 2000, with the remaining director receiving nil remuneration for that period.

There was no arrangement under which a director waived or agreed to waive any remuneration during the relevant period.

(f) Senior management remuneration

The remuneration of employees who were not directors during the relevant period and who were amongst the five highest paid individuals of the Group is as follows:

	Year ended 31st March, 1999 HK\$	Year ended 31st March, 2000 HK\$	Five months ended 31st August, 2000 HK\$
Basic salary, allowances and other benefits	499,936	986,000	200,000
Discretionary bonuses	—	—	—
Retirement benefits	<u>—</u>	<u>—</u>	<u>—</u>
	<u>499,936</u>	<u>986,000</u>	<u>200,000</u>
Number of senior management	<u>4</u>	<u>3</u>	<u>2</u>

The above individuals' emoluments are within the band of HK\$Nil to HK\$1,000,000.

During the relevant period, no emoluments were paid to the five highest paid individuals (including directors and other employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

(g) Dividends

No dividend has been paid or declared by the Company or its subsidiaries since the respective dates of their incorporation, save as disclosed in section 7 below.

(h) Earnings per share

No earnings per share is presented as its inclusion, for the purpose of this report, is not considered meaningful.

(i) Retirement benefits

The Group did not operate any scheme for retirement benefits provided to the employees of the Group during the relevant period.

(j) Related party transactions

	Year ended 31st March, 1999 HK\$	Year ended 31st March, 2000 HK\$	Five months ended 31st August, 2000 HK\$
Rental	<u>472,500</u>	<u>186,645</u>	<u>—</u>

This represents rental payments to Rax-Comm Systems Limited, a company incorporated in Hong Kong and of which Mr. Lau Hon Kwong, Vincent, Mr. Lau Hoi Chuen and Mr. Cheng Kwok Hung are directors and shareholders, and Ms. Lau Yuet Ping is a shareholder, for management office, showroom and warehouse purposes. There was no outstanding balance due from the Group to Rax-Comm Systems Limited at 31st March, 1999, 31st March, 2000 and 31st August, 2000. The directors of the Company are of the opinion that the above transactions with the related party were conducted on normal commercial terms and in the ordinary course of business. The directors of the Company have confirmed that these transactions will not continue in the future after the listing of the Company's shares on the GEM.

Apart from the above there were no other material related party transactions entered into by the Group during the relevant period.

4. NET ASSETS

The following is a summary of the combined net assets of the Group as at 31st August, 2000, prepared on the basis set out in section 1 above:

	<i>Notes</i>	<i>HK\$</i>
Non-current assets		
Fixed assets	(a)	----- 931,144
Current assets		
Inventories	(b)	1,259,918
Debtors and prepayments		11,455,502
Cash at bank and in hand		<u>2,141,259</u>
		----- 14,856,679
Current liabilities		
Amount due to a director	(c)	(1,437,049)
Creditors and accrued charges		(3,408,580)
Current portion of obligations under finance leases	(d)	(39,516)
Taxation		<u>(1,200,000)</u>
		----- (6,085,145)
Net current assets		----- 8,771,534
Non-current liabilities		
Obligations under finance leases	(d)	<u>(26,344)</u>
Net assets		<u><u>9,676,334</u></u>

Notes:

(a) Fixed assets

	Cost	Accumulated depreciation	Net book value
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Leasehold improvements	197,509	(73,801)	123,708
Furniture and fixtures	385,408	(100,118)	285,290
Office, computer and other equipment	713,431	(277,727)	435,704
Motor vehicles	<u>118,549</u>	<u>(32,107)</u>	<u>86,442</u>
	<u><u>1,414,897</u></u>	<u><u>(483,753)</u></u>	<u><u>931,144</u></u>

Fixed assets held under finance leases included in the net book value of fixed assets of the Group at 31st August, 2000 amounted to HK\$86,442.

(b) Inventories

HK\$

Raw materials	<u><u>1,259,918</u></u>
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(c) Amount due to a director

The amount due to a director was unsecured, interest-free and had no fixed terms of repayment. The amount has already been fully repaid in September 2000.

(d) Obligations under finance leases

At 31st August, 2000, the Group had obligations under finance leases repayable as follows:

HK\$

Within 1 year	47,172
After 1 year but within 2 years	31,448
After 2 years but within 5 years	<u>—</u>
	78,620
Finance charges relating to future periods	<u>(12,760)</u>
	65,860
Amount due within one year included under "Current liabilities"	<u>(39,516)</u>
	<u><u>26,344</u></u>

(e) Distributable reserves

At 31st August, 2000, the Company had not been incorporated and hence there was no reserve available for distribution to its shareholders at that date.

(f) Net tangible assets of the Company

The Company was incorporated in the Cayman Islands on 6th November, 2000. The net tangible assets of the Company at 31st August, 2000 prepared on the basis set out in section 1 above were HK\$9,676,334, representing investments in subsidiaries.

5. COMMITMENTS AND CONTINGENCIES

At 31st August, 2000, the Group had commitments under operating leases in respect of properties to make payments in the next year as follows:

Leases expiring:

	<i>HK\$</i>
After 1 year but within 5 years	<u>379,600</u>

The company has no material capital commitments or contingent liabilities as at 31st August, 2000.

6. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of the relevant period by the Company or any of its subsidiaries to directors of the Company.

7. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31st August, 2000:

- (i) The Group completed a reorganisation in preparation for the listing of the Company's shares on the GEM, details of which are set out in the subsection headed "Group reorganisation" in Appendix V of the Prospectus. As a result of the reorganisation, the Company became the holding company of the Group.
- (ii) Changes in share capital of the Company, as approved by the shareholders, are set out in the subsection headed "Changes in share capital of the Company" in Appendix V of the Prospectus.
- (iii) Two share option schemes were established on 12th February, 2001, further details of which are set out in the subsections headed "Share option scheme" and "Pre-IPO share option scheme" in Appendix V of the Prospectus.
- (iv) In November 2000, an interim dividend of HK\$1.00 per share, totalling HK\$3,418,336, in respect of the year ending 31st March, 2001 was declared by ITE Smartcard Solutions Limited for distribution to its then shareholders.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 31st August, 2000.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

The forecast of the consolidated profit after taxation but before extraordinary items of the Group for the year ending 31st March, 2001 is set out under the paragraph headed “Profit Forecast, dividends and working capital” in the section headed “Financial information” of this prospectus.

1. BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the consolidated profit after taxation but before extraordinary items of the Group for the year ending 31st March, 2001 based on the audited accounts of the Group for the five months ended 31st August, 2000, the unaudited management accounts of the Group for the four months ended 31st December, 2000 and a forecast of the consolidated results of the Group for the remaining three months ending 31st March, 2001. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31st March, 2001. The forecast has been prepared on the basis of accounting policies consistent in all material respects with those currently adopted by the Group as summarised in the Accountants’ Report, the text of which is set out in Appendix I, and is based on the following principal assumptions:

Principal Assumptions:

1. There will be no material changes in existing government policies or political, legal, regulatory, fiscal, market or economic conditions or rules and regulations in the British Virgin Islands, the Cayman Islands and Hong Kong, or any other countries in which the Group carries on business or from which the Group obtains its supplies;
2. There will be no material changes in the bases or rates of taxation or duties in Hong Kong and any countries applicable to the activities of the Group; and
3. There will be no material changes in interest rates or foreign currency exchange rates from those currently prevailing.

2. LETTER

Set out below are texts of the letters from KPMG, the auditors and reporting accountants of the Company, and from Vickers Ballas, prepared for the purpose of incorporation in this prospectus, in connection with the profit forecast of the Group for the year ending 31st March, 2001:

(a) Letter from KPMG



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

15th February, 2001

The Directors
ITE (Holdings) Limited
Vickers Ballas Capital Limited

Dear Sirs

We have reviewed the accounting policies and calculations adopted in arriving at the forecast combined profit after taxation but before extraordinary items of ITE (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31st March, 2001 (the "Forecast"), for which the Directors of the Company (the "Directors") are solely responsible, as set out in the prospectus of the Company dated 15th February, 2001 (the "Prospectus"). The Forecast has been prepared by the Directors based on the audited accounts of the Group for the five months ended 31st August, 2000, the unaudited management accounts of the Group for the four months ended 31st December, 2000, and a forecast of the combined results of the Group for the remaining three months ending 31st March, 2001.

In our opinion, so far as the accounting policies and the calculations are concerned, the Forecast has been properly compiled on the bases and assumptions adopted by the Directors as set out in Section 1 of Appendix II of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 15th February, 2001, the text of which is set out in Appendix I of the Prospectus.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

(b) Letter from the Sponsor

**VICKERS BALLAS****Vickers Ballas Capital Limited**

19th Floor., Far East Finance Centre

16 Harcourt Road

Admiralty

Hong Kong

15th February, 2001

The Directors
ITE (Holdings) Limited

Dear Sirs,

We refer to the forecast of the combined profit after taxation but before extraordinary items of ITE (Holdings) Limited (the “Company”) and its subsidiaries for the year ending 31st March, 2001 (the “Forecast”) as set out in the prospectus of the Company dated 15th February, 2001.

We have discussed with you the bases and assumptions as set out in Section 1 of Appendix II to the above-mentioned prospectus, upon which the Forecast has been made. We have also considered the letter dated 15th February, 2001 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the foregoing, the bases and assumptions made by you and the accounting policies and calculations reviewed by KPMG, we are of the opinion that the Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Vickers Ballas Capital Limited
Kelvin Lau
Director

GREATER CHINA APPRAISAL LIMITED

漢華評值有限公司

Room 2407
Shui On Centre
6–8 Harbour Road
Wanchai
Hong Kong

15th February, 2001

The Directors
ITE (Holdings) Limited

Dear Sirs,

In accordance with your instructions to value the property interests of ITE (Holdings) Limited (referred to as the “Company”) and its subsidiaries (together referred to as the “Group”) in Hong Kong, 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 the capital values of such property interests as at 31st December, 2000 (referred to as the “valuation date”).

This letter which forms part of our valuation report explains the basis and methodology of valuation, and clarifies our assumptions made, titleship of properties and the limiting conditions.

Basis of Valuation

Our valuation is our opinion of the open market value of each of the property interests which we would define as intended to mean “the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the valuation date assuming:

- (i) a willing seller;
- (ii) that, prior to the valuation date, 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;
- (iii) 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 valuation date;
- (iv) that no account is taken of any additional bid by a purchaser with a special interest; and
- (v) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.

Assumptions

Our valuation has been made on the assumption that in the open market the Company sells the property interests in their continued use and in their existing states without the benefit of any deferred terms contracts, leaseback, joint ventures, management agreements or any similar arrangement which would serve to increase the value of the property interests.

We have assumed that all consents, approvals and licenses from relevant government authorities for the buildings and structures erected thereon have been granted. Also, we have assumed that all buildings and structures fall within the site are held by the owner or permitted to be occupied by the owner.

Titleship Investigation

We have been provided with copies of the relevant tenancy/licence agreements of the properties under valuation. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any amendments which do not appear on the copies handed to us. We have caused searches to be made at the Land Registry in Hong Kong.

All legal documents disclosed in this valuation report are for reference only and no responsibility is assumed for any legal matters concerning the legal title to the property interests set out in this report.

Limiting Conditions

We have not carried out detailed site measurements to verify the correctness of the land or building areas in respect of the relevant properties but have assumed that the areas shown on the legal documents provided to us are correct. 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. However, no structural survey has been made and we are therefore unable to report as to whether the properties is free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

Having examined all relevant documentation, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us by it on such matters as planning approvals, statutory notices, easements, tenure, occupation, rentals, site and floor areas and in the identification of those properties in which the Group has valid interests. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group. We consider that we have been provided with sufficient information to enable us to reach an informed view and have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any of the properties valued 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 of encumbrances, restrictions and outgoing of an onerous nature which could affect their values.

Opinion of Value

The property interests included in this valuation report, which are held by the Group under tenancy agreement/licence agreement, have no commercial value due to inclusion of non-alienation clause or otherwise due to lack of substantial profit rent or short term nature.

Remarks

Our valuations have been prepared in accordance with generally accepted valuation procedures and comply with the requirements of the rules governing the listing of securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all property values are denominated in Hong Kong Dollars.

We enclose herewith the summary of valuation and valuation certificates.

This valuation report is issued subject to our General Service Conditions.

Yours faithfully,
For and on behalf of
Greater China Appraisal Limited
K. K. Ip
BLE. ARICS. AHKIS. PRS (GP)
Managing Director

Note: Mr. K. K. Ip, who is a Chartered Valuation Surveyor and a Registered Professional Surveyor, has substantial experience in valuation of properties in Hong Kong.

SUMMARY OF VALUATION

Property interests held by the Group in Hong Kong under lease/licence agreement

No.	Property	Capital value in existing state as at 31st December, 2000
1.	Unit 2001 with 2 Storerooms on 20th Floor Stelux House No. 698 Prince Edward Road East Kowloon Hong Kong	No commercial value
2.	Portion of Units 2601–2604 on 26th Floor Admiralty Centre, Tower I No. 18 Harcourt Road Hong Kong	No commercial value
Total:		<hr/> <u>Nil</u>

VALUATION CERTIFICATES

Property interests held by the Group in Hong Kong under tenancy/licence agreement

No.	Property	Description and Tenure	Particular of Occupancy	Capital value in existing state as at 31st December, 2000
1.	Unit 2001 with 2 Storerooms on 20th Floor Stelux House No. 698 Prince Edward Road East Kowloon Hong Kong	<p>The property comprises an office unit with 2 storerooms within a 29-storey office building including 2 levels of retailing spaces and 3 levels of underground carparking spaces completed in 1998.</p> <p>The floor area of the property is approximately 430 square metres (4,626 square feet).</p> <p>The Group holds the property under a tenancy agreement for a term of 2 years commencing from 15th November, 1999 to 14th November, 2001 at a monthly rental of HK\$26,572 exclusive of rates, Government rent and management charges with an option to renew for a further term of 1 year at the then market rent.</p>	The property is occupied by the Group as an office.	No commercial value
2.	Portion of Units 2601–2604 on 26th Floor Admiralty Centre Tower I No. 18 Harcourt Road Hong Kong	<p>The property comprises certain office spaces within a 42-storey office building including 2 levels of refuge floor and 4 levels of retailing spaces completed in 1980.</p> <p>The floor area of the property is approximately 279 square metres (3,000 square feet).</p> <p>The Group holds the property under a licence agreement for a term of 2 years commencing from 1st December, 2000 to 30th November, 2002 at a monthly licence fee of HK\$84,000 exclusive of rates and service charges.</p>	The property is occupied by the Group as an office.	No commercial value

Set out below is a summary of certain provisions of the memorandum and articles of association of the Company and of certain aspects of Cayman Islands company law.

1. MEMORANDUM OF ASSOCIATION

The memorandum of association provides that the Company's objects are unrestricted. The objects of the Company are set out in Clause 3 of the memorandum of association which is available for inspection at the address and during the period specified in the paragraph headed "Documents available for inspection" in Appendix VI. As an exempted company, the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

2. ARTICLES OF ASSOCIATION

The articles of association of the Company (the "**Articles**") were adopted on 12th February, 2001. The following is a summary of certain provisions of the Articles.

(a) Directors

(i) *Power to allot and issue shares*

Without prejudice to any special rights or restrictions for the time being attaching to any shares or any class of shares, any share may be issued upon such terms and conditions and with such preferred, deferred or other special rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any preference shares may be issued on terms that they are liable to be redeemed upon the happening of a specified event or upon a given date and either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

All unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or relevant statutes of Cayman Islands to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and the giving of security for loans to Directors*

Where the shares of the Company remain listed on the Stock Exchange or on a stock exchange in such other territory as the Directors may from time to time decide, the Company may not make, without the approval of, or ratification by, the Company in general meeting, any loans to, or provide any guarantee, indemnity or security in respect of any loan to a Director or any of his associates, provided that the Articles do not prohibit the granting of any loan or the provision of any guarantee, indemnity or security (i) to be applied for, or in respect of a liability incurred, for any business of the Company, (ii) for the purchase by a Director (or the repayment of a loan for his purchase) of a residence where the amount of the loan, the liability under the guarantee or indemnity or the value of the security does not exceed 80% of the fair market value of such residence nor 5% of the consolidated net asset value of the Company as shown in its latest audited accounts, provided that any such loan is on normal commercial terms and is secured by a legal charge over the residence or (iii) of any amount to, or in respect of a liability of, a company in which the Company has an equity interest, and the amount of such loan, or the liability assumed by the Company under such guarantee, indemnity or security, does not exceed its proportional interest in such company.

(v) *Financial assistance to purchase shares of the Company or its holding company*

There are no provisions in the Articles relating to the giving by the Company of financial assistance for the purchase, subscription or other acquisition of shares of the Company or of its holding company. The law on this area is summarised in paragraph 4(b) below.

(vi) *Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors

or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case at the first meeting of the Directors after he knows that he is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors in respect of any contract or arrangement in which he is to his knowledge materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director of any security or indemnity in respect of money lent by him or obligations undertaken by him for the benefit of the Company;
- (bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company which the Director has himself guaranteed or secured in whole or in part;
- (cc) any contract or arrangement by a Director to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the members or debenture or other securities holders or to the public which does not provide the Director any privilege not accorded to any other members or debenture or other securities holders or to the public;
- (dd) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company for subscription or purchase where the Director is or is to be interested as a participant in the underwriting or sub-

underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;

- (ee) any contract or arrangement in which the Director is interested by virtue only of his interest in shares or debentures or other securities of the Company and/or his being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;
- (ff) any contract or arrangement concerning any company in which he is interested directly or indirectly whether as a director and/or an employee and/or a member, other than a company in which the Director together with any of his associates owns 5% or more of the voting equity capital or voting rights of any class of shares of such company (or of any third company through which his interest is derived), excluding shares which carry no voting rights at general meetings and no or nugatory dividend and return of capital rights, and excluding shares held directly or indirectly through the Company;
- (gg) any proposal or arrangement for the benefit of employees of the Company or its subsidiaries including a pension fund or retirement, death or disability benefit scheme or personal pension plan under which a Director may benefit and which has been approved by or is subject to and conditional on approval by the relevant tax authorities for taxation purposes or relates both to Directors and employees of the Company or any of its subsidiaries and does not give the Director any privilege not accorded to the relevant class of officers of which the Director is a member and to whom such scheme or fund relates;
- (hh) any proposal concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of, the employees of the Company or its subsidiaries under which the Director may benefit; and
- (ii) any contract, agreement, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, officer or employee pursuant to the Articles.

(vii) *Remuneration*

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The foregoing provisions shall not apply to a Director who holds any salaried employment or

office in the Company except in the case of sums paid in respect of Directors' fees. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of chairman, deputy chairman, managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration is in addition to his ordinary remuneration as a Director.

The Directors also have power to establish and maintain or procure the establishment and maintenance of any contributory or non-contributory pension or superannuation funds for the benefit of, or to give or procure the giving of donations, gratuities, pensions, allowances or emoluments to, any persons who are or were at any time in the employment or service of the Company, or of any company which is a subsidiary of the Company, or is allied or associated with the Company or with any such subsidiary company, or who are or were at any time directors or officers of the Company or of any such other company as aforesaid, and holding or who have held any salaried employment or office in the Company or such other company, and the spouses, widows, widowers, families and dependants of any such persons and may make payments for or towards the insurance of any such persons. Any Director holding any such employment or office is entitled to participate in and retain for his own benefit any such donation, gratuity, pension, allowance or emolument.

(viii) Retirement, appointment and removal

At each annual general meeting one-third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest but not exceeding one third) will retire from office save for any chairman, deputy chairman, managing director and joint managing director. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

The number of Directors shall not be fewer than one. A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). The Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at the meeting.

The Directors may from time to time entrust to and confer upon the chairman, managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and uncalled capital or any part thereof. The Directors may raise or secure the payment or repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit and in particular, but subject to the provisions of the Companies Law, by the issue of debentures, debenture stock, bonds or other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: The provisions summarised above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

(x) *Qualification shares*

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) *Indemnity to Directors*

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the memorandum of association, to approve any alteration to the Articles or to change the name of the Company.

(c) Alterations of capital

The Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may, as between the holders of the shares to be consolidated, determine which particular shares are to be consolidated into a consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (iii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;
- (v) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association, subject nevertheless to the Companies Law, and so that the resolution whereby any shares are sub-divided may determine that, as between the

holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares;

- (vi) change the currency of denomination of its share capital;
- (vii) make provision for the issue and allotment of shares which do not carry any voting rights; and
- (viii) reduce its share premium account in any manner authorised, and subject to any conditions prescribed by law.

The Company may by special resolution reduce its authorised or issued share capital, any capital redemption reserve fund or any share premium account or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law.

(d) Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

(e) Special resolutions — majority required

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, a special resolution of the Company must be passed by a majority of not less than three-fourths of such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or by proxy, at a general meeting of which not less than 21 days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, at all times while any part of the issued capital of the Company remains listed on the Stock Exchange, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 days' notice has been given.

(f) Voting rights and right to demand a poll

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a show of hands every member who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a shareholder which is a clearing house (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded by (i) the Chairman of the meeting; or (ii) by at least three members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) for the time being entitled to vote at the meeting; or (iii) by any member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or (iv) by a member or members present in person or by proxy (or, in the case of a member being a corporation, by its duly authorised representative) and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorise such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorisation shall specify the number and class of shares in respect of which each such representative is so authorised. Each person so authorised under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominee) in respect of the number and class of shares specified in the relevant authorisation.

(g) Requirements for annual general meetings

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or such longer period as is permissible or not prohibited under the rules of the Stock Exchange on which any securities of the Company are listed with the permission of the Company.

(h) Accounts and audit

The Directors shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipts and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by law or necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions.

The books of accounts are to be kept at the principal place of business of the Company or at such other place as the Directors think fit and shall always be open to the inspection of the Directors. No member (not being a Director) or other person has any right to inspect any account or book or document of the Company except as conferred by the Companies Law or ordered by a court of competent jurisdiction or authorised by the Directors or by the Company in general meeting.

The Directors shall from time to time cause to be prepared and laid before the Company at its annual general meeting such profit and loss accounts, balance sheets, group accounts (if any) and reports and so long as any shares in the Company are listed on the Stock Exchange, the accounts of the Company shall be prepared and audited based on the generally accepted accounting principles of Hong Kong or the International Accounting Standards or such other standards as the Stock Exchange may permit. Every balance sheet of the Company shall be signed on behalf of the Directors by two Directors and a copy of every balance sheet (including every document required by law to be comprised therein or attached or annexed thereto) and profit and loss account which is to be laid before the Company at its annual general meeting, together with a copy of the Directors' report and a copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent to every member of, and every holder of debentures of, the Company and every other person entitled to receive notices of general meetings of the Company under the Companies Law or of the Articles. If all or any of the shares or debentures of the Company are for the time being (with the consent of the Company) listed or dealt in on any stock exchange, there shall be forwarded to such stock exchange such number of copies of such documents as may for the time being be required under its regulations or practice.

Auditors shall be appointed and their duties regulated in accordance with the Articles. Save as otherwise provided by such provisions the remuneration of the auditors shall be fixed by or on the authority of the Company at each annual general meeting, but in respect of any particular year, the Company in general meeting may delegate the fixing of such remuneration to the Directors.

(i) Notices of meetings and business to be conducted thereat

For so long as any part of the issued capital of the Company remains listed on the Stock Exchange, an annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must be called by giving at least 21 days' notice in writing and any other extraordinary general meeting shall be called by giving at least 14 days' notice in writing (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the place, the day and the hour of meeting and, in the case of special business, the general nature of that business.

(j) Transfer of shares

All transfers of shares must be effected by transfer in writing in the usual or common form or in any other form acceptable to the Board and may be under hand only or if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof, provided that the Directors may in their absolute discretion dispense with the requirement for the production of a transfer in writing before registering a transfer of a share, and may accept mechanically executed transfers in any case.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognise an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or transfer office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in one English and one Chinese newspaper circulating in Hong Kong, be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law.

(l) Power of any subsidiary to own securities in the Company

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

(m) Dividends and other methods of distribution

The Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends, bonuses or other distributions or the proceeds of the realisation of any of the foregoing unclaimed for one year after having been declared or remitted may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the

Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared or remitted may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company and, in the case where any of the same are securities in the Company, may be re-allotted or re-issued for such consideration as the Directors think fit.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote on a poll instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting where voting is by a show of hands or by poll, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same power on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

(o) Corporate representatives

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a show of hands and on a poll on any resolution put at such meeting.

(p) Calls on shares and forfeiture of shares

The Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(q) Inspection of register of members

The principal register and branch register of members, as the case may be, shall be open to inspection at least two hours on every business day by members without charge or by any other person, upon a maximum payment of \$2.50, at the relevant Registration Office (as defined in the Articles) or such other place in the Cayman Islands at which the register of members is kept in accordance with the Companies Law or, if appropriate, upon a maximum payment of \$10.00 at the Registration Office (as defined in the Articles). The register of members including any overseas or local or other branch register of members may, after notice has been given by advertisement in an appointed newspaper and where applicable, any other newspapers in accordance with the requirements of any stock exchange (on which the ordinary share capital is listed) to that effect, be closed at such times or for such periods not exceeding in the whole thirty (30) days in each year as the Directors may determine and either generally or in respect of any class of shares.

(r) Inspection of register of Directors

There are no provisions in the Articles relating to the inspection of the register of Directors of the Company as the matter is dealt with in the Companies Law (as to which see paragraph 4(k) below).

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one-third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands company law as summarised in paragraph 4(e) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

(v) Untraceable members

The Company may sell the shares of any member if: (i) dividends or other distributions have been declared by the Company on at least three occasions during a period of 12 years and these dividends or distributions have been unclaimed on such shares; (ii) the Company has

published an advertisement of its intention to sell such shares in English and in Chinese in one leading English and (unless unavailable) one leading Chinese newspaper circulating in the territory of the stock exchange on which the ordinary share capital of the Company is listed and a period of three months has elapsed since the date of the first publication of such notice; (iii) the Company has not at any time during the said periods of 12 years and three months received any indication of the existence of the member who is the holder of such shares or of a person entitled to such shares by death, bankruptcy or operations of law; and (iv) the Company has notified the stock exchange on which the ordinary share capital of the Company is listed of its intention to sell such shares. The net proceeds of any such sale will belong to the Company and upon the receipt of such net proceeds by the Company, the Company will become indebted to the former holder of such shares for an amount equal to the amount of such net proceeds.

(w) Stock

The Company may by ordinary resolution convert any fully paid shares into stock, and may from time to time by like resolution reconvert any stock into fully paid shares of any denominations. The holders of stock may transfer the same or any part thereof in the same manner, and subject to the same regulations as and subject to which the shares from which the stock arose might prior to conversion have been transferred or as near thereto as circumstances admit, but the Directors may from time to time, if they think fit, fix the minimum amount of stock transferable and restrict or prohibit the transfer of fractions of that minimum, but so that such minimum shall not exceed the nominal amount of the shares from which the stock arose. No warrants to bearer shall be issued in respect of any stock. The holders of stock shall, according to the amount of the stock held by them, have the same rights, privileges and advantages as regards dividends, participation in assets on a winding-up, voting at meetings, and other matters, as if they held the shares from which the stock arose, but no such privilege of the Company shall be conferred by an amount of stock which would not, if existing in shares, have conferred such privilege or advantage. All such of the provisions of the Articles as are applicable to paid up shares shall apply to stock, and the words “share” and “shareholder” and “member” therein shall include “stock” and “stockholder”.

(x) Other provisions

The Articles provide that, to the extent that it is not prohibited by and is in compliance with the Companies Law, if any rights attaching to any warrants which the Company may issue after the date of this prospectus shall remain exercisable and the Company does any act which would result in the subscription price under such warrants being reduced below the par value of a Share, a subscription right reserve shall be established and applied in paying up the shortfall between the subscription price and the par value of a Share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM OF ASSOCIATION AND ARTICLES OF ASSOCIATION

Subject to the rights of the Company set out in paragraph (c) above to amend its capital by ordinary resolution, the memorandum of association of the Company may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change

the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 clear days' notice specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of 21 clear days' notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

4. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine, including but without limitation:

- (i) in paying distributions or dividends to members;
- (ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (iii) in redeeming or purchasing its shares as provided in the Companies Law;
- (iv) in writing off:
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (v) in providing for the premiums payable on redemption of any shares or of any debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

(b) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances, be legitimate for the directors to authorise the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

(c) Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorised by its articles of association, issue redeemable shares and purchase its own shares, including any redeemable shares. Purchases and redemptions may only be effected out of the profits of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorised by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. The shares so purchased or redeemed will be treated as cancelled and the company's issued, but not its authorised, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorised to do so in its articles of association.

(d) Dividends and distributions

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

(e) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a class action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

(f) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(g) Accounting and auditing requirements

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(h) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(i) Taxation

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1995 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of twenty years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Cayman Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

(j) Stamp duty

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

(k) Inspection of corporate records

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

(l) Winding up

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum of association expires, or the event occurs on the occurrence of which the memorandum of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

Where a resolution has been passed for the voluntary winding up of a company, the court may make an order that the winding up should continue subject to the supervision of the court with such liberty to creditors, contributors or others to apply to the court as the court may think fit.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purposes of winding up the affairs of the company and distributing its assets. If the liquidator at any time forms the opinion that such company will not be able to pay its debts in full, he is obliged to summon a meeting of creditors.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting requires at least one month's notice called by Public Notice in the Cayman Islands or otherwise as the Registrar of Companies may direct.

5. GENERAL

Conyers Dill & Pearman, Cayman, the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES**1. Incorporation of the Company**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 6th November, 2000 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each. On 6th November, 2000, one share was allotted and issued to Codan Trust Company (Cayman) Limited nil paid and on the same day Codan Trust Company (Cayman) Limited transferred the one share to Mr. Manho. The nil paid share of HK\$0.10 held by Mr. Manho was subsequently paid up in the manner described in paragraph 4 below.

The Company is incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and certain relevant aspects of the Cayman Islands company law is set out in Appendix IV to this prospectus.

2. Changes in share capital of the Company

Pursuant to a resolution in writing of the sole shareholder of the Company passed on 18th November, 2000, the share capital of the Company was increased to HK\$400,000 by the creation of a further 3,000,000 shares of HK\$0.10 each, which were on that date issued credited as fully paid as described in paragraph 4 below. The authorised share capital of the Company was further increased to HK\$20,000,000 pursuant to a resolution passed by all shareholders referred to in paragraph 3 below.

Immediately following completion of the Placing and the Capitalisation Issue but not taking into account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or the options granted under the Share Option Scheme or the Pre-IPO Share Option Scheme, the authorised share capital of the Company will be HK\$20,000,000 divided into 2,000,000,000 Shares of which 445,000,000 Shares will be issued fully paid or credited as fully paid, and 1,555,000,000 Shares will remain unissued. In the event that the Over-allotment Option is exercised in full, the authorised share capital of the Company will be HK\$20,000,000 divided into 2,000,000,000 Shares of which 451,750,000 Shares will be issued fully paid or credited as fully paid, and 1,548,250,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option or options granted or which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, there is no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the members in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and in paragraph 3 below, there has been no alteration in the share capital of the Company since its incorporation.

3. Resolutions in writing of all shareholders of the Company passed on 12th February, 2001

On 12th February, 2001 pursuant to resolutions in writing passed by all shareholders of the Company:

- (a) the each of the issued and unissued shares of HK\$0.10 each in the share capital of the Company was sub-divided into ten Shares;

- (b) the Company adopted the articles of association;
- (c) the Company adopted the rules of the Pre-IPO Share Option Scheme, the principal terms of which are set out in paragraph 16 of this Appendix and the Directors were authorised to grant options to subscribe for Shares thereunder and, conditional on the GEM Listing Committee granting listings of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus and on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of that agreement or otherwise on or before the date falling 30 days after the date of this prospectus, to allot, issue and deal with Shares pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme;
- (d) conditional on the GEM Listing Committee of the Stock Exchange granting listings of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus and on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of that agreement or otherwise, in each case on or before the day following 30 days after the date of this prospectus:
 - (i) the authorised share capital was increased from HK\$400,000 to HK\$20,000,000 by the creation of a further 1,960,000,000 Shares;
 - (ii) the Placing and the Over-allotment Option were approved and the Directors were authorised to approve the allotment and issue of the Placing Shares pursuant to the Placing and such number of Shares as may be allotted and issued upon the exercise of the Over-allotment Option;
 - (iii) the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 15 of this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme;
 - (iv) conditional on the share premium account being credited as a result of the Placing, the Directors were authorised to capitalise HK\$3,658,166.40 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 365,816,640 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on 12th February, 2001 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then existing holdings;
 - (v) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights, scrip dividend schemes or similar arrangements in accordance with the articles of association of the Company, or pursuant to the grant of options under the Share Option Scheme or the Pre-IPO Share Option Scheme or the exercise of any options which may be granted under the Share Option Scheme or the Pre-IPO Share Option Scheme or under the Placing or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with

- an aggregate nominal amount of not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue and the exercise (if any) of the Over-allotment Option and (bb) the nominal amount of the share capital of the Company which may be purchased by the Company pursuant to the authority granted to the Directors as referred to in paragraph (vi) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association of the Company or the Companies Law or any other applicable law to be held, or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first;
- (vi) a general unconditional mandate was given to the Directors to exercise all powers of the Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following the Placing and the Capitalisation Issue and the exercise (if any) of the Over-allotment Option until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association of the Company or the Companies Law or any other applicable law to be held, or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first; and
- (vii) the form and substance of each of the service agreements made between the executive Directors and the Company were approved.

4. Group reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on the GEM. The reorganisation involved the transfer to the Company by Rax-Comm Systems Limited, Mr. Manho, Fullworth Asia Limited, Sanbar Development Corporation S. A., Mr. Pruemmm and Mr. Roessner of 20,000 shares, in aggregate, being the entire issued share capital in ITE (BVI), the intermediate holding company of the Group, in consideration and in exchange for which the Company (i) allotted and issued, credited as fully paid, 3,418,335 new shares of HK\$0.10 each as to 2,367,000 shares to Rax-Comm Systems Limited, 632,999 shares to Mr. Manho, 140,152 shares to Fullworth Asia Limited, 140,152 shares to Sanbar Development Corporation S. A., 30,662 shares to Mr. Pruemmm and 107,370 shares to Mr. Roessner; and (ii) credited as fully paid at par the one nil-paid share of HK\$0.10 held by Mr. Manho.

In addition to the transfer of shares in ITE (BVI) referred to above, the Group also underwent the following corporate restructuring:

- (a) on 31st October, 2000, ITE (BVI) was incorporated with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1 each;

- (b) on 1st November, 2000, 6,924 shares, 1,852 shares, 410 shares, 410 shares, 90 shares and 314 shares of US\$1 each in ITE (BVI) were allotted and issued at par to Rax-Comm Systems Limited, Mr. Manho, Fullworth Asia Limited, Sanbar Development Corporation S.A., Mr. Pruemmm and Mr. Roessner respectively;
- (c) on 2nd November, 2000, 140,152 shares, 140,152 shares, 30,662 shares and 107,370 shares of HK\$1 each of ITE(HK) were issued and allotted to each of Fullworth Asia Limited, Sanbar Development Corporation S. A., Mr. Pruemmm and Mr. Roessner respectively at the respective consideration of HK\$3,936,000, HK\$3,936,000, HK\$862,110 and HK\$3,014,790 respectively;
- (d) on 17th November, 2000, 6,924 shares, 1,852 shares, 410 shares, 410 shares, 90 shares and 314 shares of US\$1 each in ITE (BVI) were allotted and issued, credited as fully paid, respectively to Rax-Comm Systems Limited, Mr. Manho, Fullworth Asia Limited, Sanbar Development Corporation S. A., Mr. Pruemmm and Mr. Roessner in consideration and in exchange for the transfer of 2,367,000 shares, 633,000 shares, 140,152 shares, 140,152 shares, 30,662 shares and 107,370 shares of HK\$1 each in ITE (HK), being the entire issued share capital of ITE (HK), respectively to ITE (BVI);
- (e) on 1st September, 2000, Nat-Id was incorporated with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1 each;
- (f) on 10th November, 2000, each of ITE (BVI) and its nominee acquired one subscriber share of HK\$1 each in Nat-Id at a consideration of HK\$1 each;
- (g) on 1st September, 2000, ITE Engineering was incorporated with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1 each;
- (h) on 10th November, 2000, each of ITE (BVI) and its nominee acquired one subscriber share of HK\$1 each in ITE Engineering at a consideration of HK\$1 each;
- (i) on 4th September, 2000, ITE Investment was incorporated with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1 each;
- (j) on 10th November, 2000, each of ITE (BVI) and its nominee acquired one subscriber share of HK\$1 each in ITE Investment at a consideration of HK\$1 each;
- (k) on 4th September, 2000, RF Tech was incorporated with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1 each;
- (l) on 10th November, 2000, each of ITE (BVI) and its nominee acquired one subscriber share of HK\$1 each in RF Tech at a consideration of HK\$1 each;
- (m) on 29th September, 2000, Rainbow Spirit was incorporated with an authorised capital of HK\$10,000 divided into 10,000 shares of HK\$1 each;
- (n) on 10th November, 2000, each of ITE (BVI) and its nominee acquired one subscriber share of HK\$1 each in Rainbow Spirit at a consideration of HK\$1 each;

- (o) on 20th November, 2000, Rax-Comm Systems Limited transferred 2,123,600 shares, 170,927 shares and 72,473 shares of HK\$0.10 each in the Company, to Rax-Comm, Mr. H.C. Lau and Mr. Cheng respectively at the consideration of HK\$1 each.

5. Changes in share capital of subsidiaries and transfer of shares in subsidiaries

The subsidiaries of the Company are listed in the accountants' report set out in Appendix 1 to this prospectus.

The following alterations in the share capital and transfer of shares in the Company's subsidiaries took place within two years immediately preceding the date of this prospectus:

- (a) On 19th February, 2000, each of Mr. Ong Liang Huat, Mr. Yap Neng Chew, Mr. Siew Chak Hung and Mr. Fan Khong Sang transferred 127,500 shares of HK\$1 each in ITE (HK) to Rax-Comm Systems Limited, each at a consideration of HK\$63,750 respectively.
- (b) On 23rd March, 2000, the authorized share capital of ITE (HK) was increased from HK\$1,000,000 divided into 1,000,000 shares of HK\$1 each to HK\$3,000,000 divided into 3,000,000 shares of HK\$1 each; 1,578,000 shares and 422,000 shares were issued and allotted to Rax-Comm Systems Limited and Mr. Manho at par respectively.
- (c) On 23rd March, 2000, Rax-Comm Systems Limited transferred 111,000 shares of HK\$1 each in ITE (HK) to Mr. Manho at the consideration of HK\$1.
- (d) On 1st November, 2000 the authorized share capital of ITE (HK) was increased from HK\$3,000,000 divided into 3,000,000 shares of HK\$1 each to HK\$4,000,000 divided into 4,000,000 shares of HK\$1 each.

Save as disclosed in this Appendix, there has been no alteration in the share capital of or transfer of shares in any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by the Company of its own securities

This paragraph 6 includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *Stock Exchange Rules*

The GEM Listing Rules permit a company listed on GEM to repurchase its securities on GEM subject to certain restrictions, the more important of which are summarised below:

(i) *Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on GEM must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by all shareholders of the Company on 12th February, 2001, a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorising any repurchase by the Company of Shares on GEM or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal value of the share capital of the Company immediately following completion of the Placing and the Capitalisation Issue (such share capital shall include Shares which may be issued upon the exercise of the Over-allotment Option), such mandate to expire at the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association of the Company or the Companies Law or any other applicable law to be held or when revoked or varied by ordinary resolution of shareholders in general meeting of the Company, whichever shall first occur.

(ii) *Source of funds*

Repurchases must be funded out of funds legally available for the purpose in accordance with the Company’s memorandum of association and articles of association and the Companies Law. A listed company may not repurchase its own securities on GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange. Any repurchases by the Company may be made out of profit or out of a fresh issue of shares made for the purpose of the repurchase or, if authorised by the articles or association and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of profits or from sums standing to the credit of the share premium account of the Company or, if authorised by the articles or association and subject to the Companies Law, out of capital.

(iii) *Connected parties*

A company is prohibited from knowingly repurchasing securities on GEM from a “connected person”, that is, a director, chief executive, substantial shareholder or management shareholder of the Company or any of their respective associates (as defined in the GEM Listing Rules) and a connected person shall not knowingly sell his securities to the company on GEM.

(b) *Reasons for repurchases*

The Directors believe that it is in the best interest of the Company and its shareholders for the Directors to have general authority from the shareholders to enable the Directors to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and its shareholders.

(c) *Funding of repurchases*

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and articles of association, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, on the basis of 445,000,000 Shares in issue immediately after the listing of the Shares on GEM (assuming the Over-allotment Option is not exercised), would result in up to 44,500,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

In the event the Over-allotment Option is exercised in full, 451,750,000 Shares will be in issue immediately after the listing of the Shares on GEM. The exercise in full of the Repurchase Mandate on such basis would result in up to 45,175,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(d) *General*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries if the Repurchase Mandate is exercised.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the repurchase mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a securities repurchase, a shareholder's proportionate interest in the voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person (as defined in the GEM Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

7. Registration under Part XI of the Companies Ordinance

The Company has established a place of business in Hong Kong at Room 2001, Stelux House, 698 Prince Edward Road East, San Po Kong, Kowloon, Hong Kong. The Company has been registered as an overseas company under Part XI of the Companies Ordinance. Mr. H.K. Lau and Mr. Liu, both being Directors, have been appointed as agents of the Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS

8. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

- (a) an agreement dated 18th November, 2000 made among (i) Rax-Comm Systems Limited, Mr. Manho, Fullworth Asia Limited, Sanbar Development Corporation S. A., Mr. Pruemm and Mr. Roessner as vendors; (ii) Ms. Lau, Mr. H.C. Lau, Mr. Cheng and Mr. H.K. Lau as warrantors and (iii) the Company as purchaser for the acquisition by the Company of the entire issued share capital of ITE (BVI) in consideration and in exchange for which the Company (i) allotted and issued, credited as fully paid, an aggregate of 3,418,335 new shares of HK\$0.10 each as to 2,367,000 shares to Rax-Comm Systems Limited, 632,999 shares to Mr. Manho, 140,152 shares to Fullworth Asia Limited, 140,152 shares to Sanbar Development Corporation S. A., 30,662 shares to Mr. Pruemm and 107,370 shares to Mr. Roessner and (ii) credited as fully paid at par the one nil-paid share of HK\$0.10 held by Mr. Manho;
- (b) a deed of indemnity dated 15th February, 2001 executed by Rax-Comm, Mr. H.C. Lau, Mr. Cheng, Mr. Manho, Ms. Lau and Mr. H.K. Lau in favour of the Group containing the indemnities more particularly referred to in paragraph 17 of this Appendix; and
- (c) the Underwriting Agreement.

9. Intellectual property rights of the Group

Trade mark

As at the Latest Practicable Date, the Group had registered the following trade mark:

Trade mark	Place of registration	Class	Registration number	Expiry date	Goods & services covered
	Hong Kong	9	01438 of 1999	27th February, 2005	Display apparatus, control apparatus, data processing equipment, computers, automatic vending machines; all included in class 9

As at the Latest Practicable Date, the Group had applied for registration of the following trade marks the registration of which has not yet been granted:

Trade mark	Place of application	Class	Application number	Application date	Goods & services covered
	Hong Kong	9	21404 of 2000	26th September, 2000	Display apparatus, control apparatus, data processing equipment, computers, automatic vending machines; all included in class 9
	Hong Kong	9	26653 of 2000	7th December, 2000	Display apparatus, control apparatus, data processing equipment, computers, automatic vending machines; all included in class 9

FURTHER INFORMATION ABOUT DIRECTORS, MANAGEMENT AND STAFF

10. Directors

Disclosure of interests of directors

- (a) Each of Mr. H.K. Lau, Mr. Manho and Mr. Cheng is interested in the corporate reorganisation referred to in paragraph 4 of this Appendix.

Particulars of service contracts

Each of Mr. H.K. Lau, Mr. Manho, Mr. Cheng and Mr. Liu, being all the executive Directors, has entered into a service contract with the Company for an initial term of three years commencing from 1st February, 2001, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. Each of these executive Directors is entitled to the respective basic salary set out below (subject to an annual increment after 31st March, 2002 at the discretion of the Directors of not more than 20% of the annual salary immediately prior to such increase). In addition, the executive Directors are also entitled to a management bonus provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 10% of the audited combined profits attributable to the shareholders of the Company (after taxation and minority interest but before extraordinary and exceptional items and payment of such management

bonuses) in respect of that financial year of the Company. An executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him. The current basic annual salaries of the executive Directors are as follows:

Name	Amount
Mr. H.K. Lau	HK\$780,000
Mr. Manho	HK\$780,000
Mr. Cheng	HK\$780,000
Mr. Liu	HK\$130,000

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

Directors remuneration

- (a) The Company's policies concerning remuneration of executive Directors are as follows:
- (i) the amount of remuneration payable to the executive Directors will be determined on a case by case basis depending on the experience, responsibility, workload and the time devoted to the group by the relevant director;
 - (ii) non-cash benefits may be provided to the Directors under their remuneration package; and
 - (iii) the executive Directors may be granted, at the discretion of the board of Directors, share options of the Company, as part of the remuneration package.
- (b) During the year ended 31 March 2000, the aggregate emoluments paid by the Group to the Directors was approximately HK\$1,080,000. Details of the Directors remuneration are set out in section 3 of the accountants' report set out in Appendix 1 to this prospectus.
- (c) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the Directors for the year ending 31st March, 2001 are estimated to be approximately HK\$1,865,000.
- (d) No emoluments were paid by the Group to the Directors as an inducement to join or upon joining the group or as compensation for loss of office. None of the Directors have waived any emoluments.
- (e) Save for directors' fees, none of the non-executive Directors is expected to receive any other remuneration for holding their office as a non-executive Director.

Interests of Directors in the share capital of the Company and its associated corporations

- (i) Immediately following the Placing and the Capitalisation Issue, the interests of the Directors in the share capitals 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 under section 31 of, or Part I of the Schedule to, the SDI Ordinance) once the 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 Shares are listed, or pursuant to Rule 5.40 to 5.59 of the GEM Listing Rules to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

Director	Number of Shares				
	Corporate interests	Personal interests	Family interests	Other interests	Total interests
Mr. H.K. Lau	248,495,174 (Note 1)	—	—	—	248,495,174
Mr. Manho	—	74,071,127	—	—	74,071,127
Mr. Cheng	248,495,174 (Note 2)	8,480,500	—	—	256,975,674

Notes:

- These Shares will be registered in the name of Rax-Comm. Mr. H.K. Lau is the owner of 46.21% of the issued share capital of Rax-Comm. Under the SDI Ordinance, Mr. H.K. Lau is deemed to be interested in all Shares registered in the name of Rax-Comm.
 - These Shares will be registered in the name of Rax-Comm. Mr. Cheng is the owner of 36.11% of the issued share capital of Rax-Comm. Under the SDI Ordinance, Mr. Cheng is deemed to be interested in all Shares registered in the name of Rax-Comm.
- (ii) Options to subscribe for an aggregate of 18,371,040 Shares at an exercise price of HK\$0.19 have been granted by the Company to its Directors (including independent non-executive Directors) pursuant to the Pre-IPO Share Option Scheme. Details of the options granted to the Directors are contained in the section headed “Pre-IPO share option scheme” in this Appendix.

11. Substantial shareholders

So far as the Directors are aware, immediately following the Placing and the Capitalisation Issue and taking no account of Shares which may be taken up under the Placing or upon the exercise of the Over-allotment Option, the following persons will be interested in more than 10% of the Shares then in issue:

Name	Number or attributable number of Shares held	Approximate percentage or attributable percentage of Shareholding in the Company %
Rax-Comm	248,495,174 (<i>Note 1</i>)	55.84
Mr. Manho	74,071,127	16.65
Mr. H.K. Lau	248,495,174 (<i>Note 2</i>)	55.84
Mr. Cheng	256,975,674 (<i>Note 3</i>)	57.75

Notes:

- The issued share capital of Rax-Comm is owned by the following persons:

Name of shareholders	Number of shares	Approximate percentage of shareholding
Mr. H.K. Lau (a)	4,621	46.21
Ms. Lau (b)	858	8.58
Mr. Lau Hoi Chuen (b)	910	9.10
Mr. Cheng (a)	<u>3,611</u>	<u>36.11</u>
Total	<u>10,000</u>	<u>100.00</u>

- Mr. H.K. Lau and Mr. Cheng are executive Directors and Initial Management Shareholders. Mr. H.K. Lau is also one of the founders of the Group.
 - Ms. Lau and Mr. Lau Hoi Chuen are Initial Management Shareholders.
- These Shares comprise 248,495,174 Shares registered in the name of Rax-Comm. Mr. H.K. Lau is interested in 46.21% of the issued share capital of Rax-Comm. Accordingly, Mr. H.K. Lau is deemed to be interested in all the Shares in which Rax-Comm is interested.
 - These Shares comprise 248,495,174 Shares registered in the name of Rax-Comm and 8,480,500 Shares registered in the name of Mr. Cheng. Mr. Cheng is interested in 36.11% of the issued share capital of Rax-Comm. Accordingly, Mr. Cheng is deemed to be interested in all the Shares in which Rax-Comm is interested.

12. Agency fees or commissions received

The Underwriters will receive a commission of 2.5% of the Issue Price per Placing Share in respect of all the Placing Shares, out of which they will pay any sub-underwriting commissions and selling concessions. The Sponsor will also receive a documentation fee. Such commissions, selling

concessions, documentation fees and expenses, together with the Stock Exchange listing fees, legal and other professional fees, and printing and other expenses relating to the Placing, which are estimated to amount in aggregate to approximately HK\$9.35 million, will be payable by the Company.

13. Related party transactions

During the two years preceding the date of this prospectus, the Group had engaged in dealings with certain Directors and their associates as described in:

- (a) note (j) to section 3 of the accountants' report set out in Appendix 1 to this prospectus;
- (b) paragraph 4 of this Appendix.

14. Disclaimers

Save as disclosed in this prospectus:

- (i) and taking no account of any Shares which may be taken up or acquired under the Placing or upon the exercise of the Over-allotment Option or the options granted or which may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme, the Directors are not aware of any person who immediately following the Placing and completion of the allotment and issue of the Over-allotment Option Shares will hold either directly or indirectly, or be beneficially interested in, Shares representing 10% or more of the share capital of the Company in issue and to be issued as mentioned in this prospectus;
- (ii) none of the Directors has for the purpose of section 28 of the SDI Ordinance or the GEM Listing Rules, nor is any of them taken to or deemed to have under section 31 of, or Part 1 of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) or any interests which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules once the Shares are listed on GEM;
- (iii) none of the Directors or the experts named in paragraph 22 of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group nor will any Director apply for Shares either in his own name or in the name of a nominee;
- (iv) none of the Director or the experts named in paragraph 22 of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and
- (v) none of the experts named in paragraph 22 of this Appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group.

OTHER INFORMATION

15. Share option scheme

(a) *Summary of terms*

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution in writing passed by all shareholders of the Company on 12th February, 2001:

(i) *Who may join*

A committee (the “**Committee**”) of the Directors comprising the independent non-executive Directors (and also, where applicable, the independent non-executive directors of any holding company whose securities are listed on GEM or the Main Board) may, at its absolute discretion, invite any employee of the Company or any of its subsidiaries, including any executive director of the Company or any such subsidiary (but not any non-executive director) which is in full-time employment with the Company or any subsidiary at the time when an option is granted to such employee, to take up options to subscribe for Shares.

(ii) *Price for Shares*

The subscription price for Shares under the Share Option Scheme will be a price determined by the Directors, but may not be less than the higher of the closing price of Shares on the GEM on the date of grant of the particular option or the average of the closing price of the Shares on the GEM for the five trading days immediately preceding the date of the grant of the particular option or the nominal value of a Share. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

(iii) *Maximum number of Shares*

(aa) The maximum number of Shares in respect of which options may be granted under the Share Option Scheme may not (when aggregated with Shares subject to any other employee share option scheme including the Pre-IPO Share Option Scheme) exceed in nominal amount 30% of the issued share capital of the Company from time to time during the period of ten years from the adoption date of the Share Option Scheme, excluding for this purpose, (i) Shares issued upon the exercise of any options granted under the Share Option Scheme (or any other employee share option scheme including the Pre-IPO Share Option Scheme); and (ii) any pro-rata entitlement to further Shares issued in respect of those Shares mentioned in (i), provided that:

(a) the total number of Shares available for issue under options which have been or may be granted under the Share Option Scheme and any other share option schemes for the time being of the Company (including the Pre-IPO Share Option Scheme) must not, in aggregate, exceed 10% of the

issued share capital of the Company from time to time unless an approval by shareholders at general meeting has been obtained pursuant to paragraph (b) below; and

- (b) the Committee may seek shareholders' approval at general meeting to grant options beyond the 10% limit referred to in paragraph (a) above, provided that (1) the total number of Shares subject to the Share Option Scheme and any other share option schemes for the time being of the Company (including the Pre-IPO Share Option Scheme) must not in aggregate exceed 30% of the total issued share capital of the Company from time to time and (2) the options in excess of the 10% limit are granted only to participants specified by the Committee before such approval is sought.

The maximum number of Shares in respect of all options shall include all Shares falling to be issued upon the exercise of any option by any grantee (to the extent not already exercised) together with all Shares which have already been issued pursuant to the exercise of any option including options granted by the Company under any other share option schemes (including the Pre-IPO Share Option Scheme) .

- (bb) No option may be granted to any one person which, if exercised in full, will result in the total number of Shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Share Option Scheme exceeding 25% of the maximum aggregate number of Shares for the time being issued and which may fall to be issued under the Share Option Scheme.

(iv) *Time of grant and exercise of option*

Any grant of options must not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules. An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Committee to each grantee. Such period may end on a day falling three years after the date upon which the offer for the grant of the option is made subject to the provisions for early termination thereof.

(v) *Rights are personal to grantee*

An option is personal to a grantee and shall not be transferable or assignable.

(vi) *Rights on death*

If a grantee of an option ceases to be an eligible employee of the Group by reason of his death before exercising the option in full, his personal representative(s), may exercise the option (to the extent not already exercised) in whole or in part within a period of 12

months following the date of cessation of employment which date shall be the last day on which the grantee was at work with the Group whether salary is paid in lieu of notice or not.

(vii) *Rights on dismissal, bankruptcy or insolvency*

If a grantee of an option ceases to be an eligible employee of the Group on the grounds that he has been guilty of persistent or serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence (other than an offence which in the opinion of the Directors does not bring the grantee or the Group into disrepute) before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable. The date of such cessation shall be the last day on which the grantee was at work with the Group whether salary is paid in lieu of notice or not.

(viii) *Rights on resignation, retirement, expiry of employment contract or termination of employment other than for reasons in (vi) and (vii) above*

If a grantee of an option ceases to be an eligible employee of the Group by resignation, retirement, expiry of employment contract or termination of employment for any reason other than any of the events specified in paragraphs (vi) and (vii) above, the grantee may exercise the option (to the extent not already exercised) in whole or in part within a period of three months following the date of cessation which date shall be the last day on which the grantee was at work with the Group whether salary is paid in lieu of notice or not.

(ix) *Rights on voluntary winding up*

In the event of an effective resolution being proposed for the voluntary winding-up of the Company, the grantee may, subject to the provisions of all applicable laws, by notice in writing to the Company at any time prior to the date on which such resolution is passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and shall accordingly be entitled, in respect of the Shares falling to be allotted and issued upon the exercise of his option, to participate in the distribution of the assets of the Company available in liquidation *pari passu* with the holders of the Shares in issue on the day prior to the date of such resolution;

(x) *Effect of alterations to capital*

In the event of any alteration in the capital structure of the Company whilst an option remains exercisable or the Share Option Scheme remains in effect, such corresponding alterations (if any) certified by the auditors for the time being of the Company as fair and reasonable will be made to the number or nominal amount of Shares the subject matter of the Share Option Scheme and the option so far as unexercised and/or the option price and/or the method of exercise of the option concerned, provided that such alteration will be made on the basis that the proportion of the issued share capital of the Company for which the grantee of an option would have been entitled had he exercised all the options held by

him immediately prior to such alteration shall equal to the proportion of the issued share capital of the Company for which he would have been entitled had he exercised all the options held by him immediately after such alteration, the aggregate subscription price payable by the grantee upon the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) as it was before such event but so that no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value.

(xi) *Ranking of Shares*

Shares allotted upon the exercise of an option will be subject to all the provisions of the articles of association of the Company and will rank *pari passu* in all respects with the fully paid Shares in issue on the date on which the option is duly exercised (the “Exercise Date”) and accordingly will entitle the holders thereof to participate in all dividends or other distributions paid or made on or after the Exercise Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the Exercise Date. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee as the holder thereof.

(xii) *Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of ten years commencing on the date on which the Share Option Scheme becomes unconditional.

(xiii) *Alterations to terms and conditions*

The Share Option Scheme may be altered in any respect by resolution of the Committee except that any material alteration to its terms and conditions of the Share Option Scheme including matters contained in Rule 23.03 of the GEM Listing Rules shall first be approved by the Stock Exchange and that any alteration of the provisions of the Share Option Scheme to the advantage of the grantees or the prospective grantees shall not take effect except with the prior sanction of an ordinary resolution of the Company in general meeting, with the grantees and their associates abstain from voting provided that no such alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration.

(xiv) *Cancellation of options*

Any cancellation of options granted but not exercised must be approved by shareholders of the Company (and also by shareholders of any holding company whose securities are listed on the Main Board or on GEM) in general meeting, with participants and their associates abstaining from voting. Any vote taken at the general meeting to approve such cancellation shall be taken by poll.

(xv) *Termination of the Share Option Scheme*

The Company in general meeting may at any time terminate the Share Option Scheme and in such event no further options shall be granted or offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect. Upon such termination, details of the options granted (including options exercised or outstanding) under the Share Option Scheme are required under the GEM Listing Rules to be disclosed in the circular to shareholders seeking approval of the first new scheme established thereafter.

(xvi) *General*

Unless the context otherwise requires, references to “Shares” in this paragraph 15 include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a sub-division, consolidation, re-classification or re-construction of the share capital of the Company from time to time.

(b) *Present status of the Share Option Scheme*

(i) *Approval of GEM Listing Committee required*

The Share Option Scheme is conditional on the GEM Listing Committee of the Stock Exchange granting approval of and listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(ii) *Application for approval*

Application has been made to the GEM Listing Committee of the Stock Exchange for the approval of the Share Option Scheme, the subsequent grant of options under the Share Option Scheme and the listing of and permission to deal in the Shares to be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme.

(iii) *Grant of option*

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

16. Pre-IPO share option scheme

(a) *Summary of terms*

The principal terms of the Pre-IPO Share Option Scheme approved by a resolution in writing passed by all shareholders of the Company on 12th February, 2001 are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price per Share is HK\$0.19;

- (b) the options would not lapse on the death, bankruptcy or insolvency of the grantee or otherwise on the termination of the relevant grantee's employment with the Group (if the grantee is an employee of the Group);
- (c) the options are transferable;
- (d) the options may be exercised at any time during a period of 10 years from the date of grant of such options.

Application has been made to the GEM Listing Committee of the Stock Exchange for the approval of and listing of and permission to deal in the Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme.

As at the Latest Practicable Date, options to subscribe for an aggregate of 40,000,000 Shares at a subscription price of HK\$0.19 each have been conditionally granted by the Company to five employees, six Directors (including independent non-executive Directors), five of which are Initial Management Shareholders, and seven advisers of the Company, respectively under the Pre-IPO Share Option Scheme.

(b) Outstanding options granted under the Pre-IPO Share Option Scheme

Particulars of the outstanding options which have been granted under the Pre-IPO Share Option Scheme to the Directors and employees and advisers of the Group are set out below:

Name of grantees position in the Group	Address	Number of underlying Shares and percentage of shareholding
Liu Hoi Wah <i>(Executive Director)</i>	Flat C, 8th Floor Helena Garden 257–263 Prince Edward Road West Kowloon Hong Kong	9,556,320 (2.15%)
Lau Hon Kwong Vincent <i>(Executive Director and Initial Management Shareholder)</i>	15C, Block 9, Site 9 Whampoa Garden Hung Hom Kowloon Hong Kong	3,054,720 (0.69%)
George Roger Manho <i>(Executive Director and Initial Management Shareholder)</i>	Unit D, 7th Floor, Block 1 Serenity Park 18 Tai Po Tau Road Tai Po New Territories Hong Kong	2,000,000 (0.45%)

Name of grantees position in the Group	Address	Number of underlying Shares and percentage of shareholding
Cheng Kwok Hung <i>(Executive Director and Initial Management Shareholder)</i>	Flat G, 5th Floor Block 2, Site 9 Whampoa Garden Hungghom Kowloon Hong Kong	2,000,000 (0.45%)
Lee Peng Fei, Allen <i>(Independent Director)</i>	House 11, Windsor Park, Phase 1 Ma Ling Path Kau To Sha Tin New Territories Hong Kong	880,000 (0.20%)
Tsao Kwang Yung, Peter <i>(Independent Director)</i>	Flat A1 8 Caldecott Road Kowloon Hong Kong	880,000 (0.20%)
Chow Tak Hing <i>(Human resources manager)</i>	Flat 3, 33rd Floor Kam Yiu House Kam Ying Court Maonshan New Territories Hong Kong	2,000,000 (0.45%)
Yuk Wai Kwok <i>(Project manager)</i>	Room 3408, Block G Amoy Gardens 77 Ngau Tau Kok Road Kwun Tong Kowloon Hong Kong	2,000,000 (0.45%)
Kam Wai Tak <i>(Technical Manager)</i>	Flat 3, 5th Floor Lok Wing Building Whampoa Estate Hungghom Kowloon Hong Kong	2,000,000 (0.45%)

Name of grantees position in the Group	Address	Number of underlying Shares and percentage of shareholding
Lau Hoi Chuen <i>(Product Manager and Initial Management Shareholder)</i>	Flat C, 8th Floor Helena Garden 257–263 Prince Edward Road West Kowloon Hong Kong	4,210,560 (0.95%)
Lau Yuet Ping <i>(Administration Manager and Initial Management Shareholder)</i>	Flat 907 Pik Hoi House Choi Hung Estate Kowloon Hong Kong	3,818,400 (0.86%)
Holger Hubert Roessner <i>(Corporate adviser)</i>	160 Killiney Road, #9–04 La Crystal, Singapore 239568	1,200,000 (0.27%)
Lin Yu Lin <i>(Corporate adviser)</i>	108 Front Portion Ma Yau Tong Village Sai Kong Hong Kong	3,200,000 (0.72%)
Hans-Georg-Theodor Pruemmm <i>(Corporate adviser)</i>	Lerchesberyring 1 60598 Frankfurt Germany	1,200,000 (0.27%)
Elie Wakim <i>(Corporate adviser)</i>	86 Rue du Rhone 1211 Geneva 3 Switzerland	700,000 (0.16%)
Ramzi Henry Sanbar <i>(Note)</i> <i>(Corporate adviser)</i>	96, Park Lane London W1Y 3TA United Kingdom	1,000,000 (0.22%)
Chu Taine Yeh <i>(Corporate adviser)</i>	7 Old Lantern Road Norwalk, CT 06851 USA	200,000 (0.04%)
Mark David Diab <i>(Note)</i> <i>(Corporate adviser)</i>	96, Park Lane London W1Y 3TA United Kingdom	100,000 (0.02%)
		<hr/> 40,000,000 <hr/> (8.99%)

Note: Ramzi Henry Sanbar and Mark David Diab are cousins.

Under the offer letters in respect of the grant of options under the Pre-IPO Share Option Scheme, an option can only be exercised commencing from the Business Day immediately following the expiry of six month from the Listing Date.

The Directors consider that the grant of options under the Pre-IPO Share Option Scheme is to reward the employees, advisers and Directors for their past contributions to the Group and it is also an effective method to retain and motivate the existing employees, advisers and Directors and to secure services of the experienced and skilled employees of the Group who are instrumental to the growth of the Group. The Directors consider the subscription price under the Pre-IPO Share Option Scheme to be reasonable and in the interest of the shareholders of the Company as a whole.

A list of all options granted by the Company under the Pre-IPO Share Option Scheme as at the date of this prospectus, containing all the details in respect of each option required under paragraph 10 of Part I of the Third Schedule to the Companies Ordinance is available for inspection in accordance with the section headed “Documents available for inspection” in Appendix VI to this prospectus.

17. Estate duty and tax indemnity

Each of Rax-Comm, Mr. H.C. Lau, Mr. Cheng, Mr. Manho, Ms. Lau and Mr. H.K. Lau (collectively the “**Indemnifiers**”) has entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) (being the material contract referred to in paragraph 8(b) of this Appendix) and all its present subsidiaries to provide indemnities on a joint and several basis in respect of, among other matters:

- (i) any duty which is or hereafter becomes payable by any of the member of the Group by virtue of section 35 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) or the equivalent thereof under the laws of any jurisdiction outside Hong Kong or under the provisions of section 43 of the Estate Duty Ordinance or the equivalent thereof under the laws of any jurisdiction outside Hong Kong by reason of the death of any person and by reason of the assets of any of the member of the Group or any of such assets being deemed for the purpose of the estate duty payable under the Estate Duty Ordinance or any law of equivalent effect of any jurisdiction outside Hong Kong, and includes any interest, penalty or other liability arising in connection with the imposition or non-payment or delay in payment of such duty (collectively “Estate Duty”), to be included in the property passing on his death by reason of that person making or having made a relevant transfer to any of the member of the Group on or before the date on which dealings in Shares first commence on the Stock Exchange (the “Effective Date”); or
- (ii) any amount recovered against any of the member of the Group under the provisions of section 43(7) of the Estate Duty Ordinance in respect of any duty payable under section 43(1)(c) or 43(6) of the Estate Duty Ordinance by reason of the death of any person and by reason of the assets of any of the member of the Group or any of such assets being deemed for the purpose of Estate Duty to be included in the property passing on his death by reason of that person making or having made a relevant transfer to any of the member of the Group on or before the Effective Date; or
- (iii) any amount of duty which any of the member of the Group is obliged to pay by virtue of section 43(1)(c) of the Estate Duty Ordinance in respect of the death of any person in any case where the assets of another company or any of them are deemed for the purpose of Estate Duty to be included in the property passing on that person’s death by reason of that

person making or having made a relevant transfer to that other company and by reason of any of the member of the Group having received any distributed assets of that other company on their distribution within the meaning of the Estate Duty Ordinance, in each case, at any time on or before the Effective Date but only to the extent to which any of the member of the Group is unable to recover an amount or amounts in respect of that duty from any other person under the provisions of section 43(7)(a) of the Estate Duty Ordinance; or

- (iv) the amount of any and all Taxation (as defined in the deed of indemnity) falling on any of the member of the Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into (or deemed to be so earned, accrued, received or entered into) or occurring on or before the date on which the Placing becomes unconditional, whether or not such Taxation is chargeable against or attributable to any other person, firm or company, unless such liability to Taxation is also discharged by such other person, firm or company; or
- (v) all costs (including all legal costs), expenses or other liabilities which any of the member of the Group may properly incur in connection with:
 - (a) the investigation, assessment or the contesting of any Claim (as defined in the deed of indemnity);
 - (b) the settlement of any claim under the deed of indemnity;
 - (c) any legal proceedings in which any of the member of the Group claims under or in respect of the deed of indemnity and in which judgment is given for any of the member of the Group; or
 - (d) the enforcement of any such settlement or judgment.

The Indemnifiers will, however, not be liable under the deed of indemnity:

- (a) to the extent that provision has been made for such Taxation in the audited combined accounts of the Company or the audited accounts of the relevant member of the Group for the two years ended 31st March, 2000 and for the five months ended 31st August, 2000 as set out in Appendix I to this prospectus;
- (b) for which any member of the Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 31st August, 2000;
- (c) to the extent that such Taxation or liability would not have arisen but for any act or omission or delay by any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of the Indemnifiers other than such act or omission carried out or effected in the ordinary course of business after the Effective Date or carried out, made or entered into pursuant to a legally binding commitment created on or before the Effective Date;

- (d) to the extent that such Taxation or liability is discharged by another person who is not a member of the Group and that the member of the Group (which is being discharged of such Taxation or liability) is not required to reimburse such person in respect of the discharge of the Taxation or liability;
- (e) to the extent that such Claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities of the PRC or any other authority in any part of the world coming into force after the date hereof or to the extent such Claim arises or is increased by an increase in rates of Taxation after the date of the deed of indemnity with retrospective effect; and
- (f) to the extent of any provision or reserve made for Taxation in the audited combined accounts of the Company or the audited accounts of the relevant member of the Group for the two years ended 31st March, 2000 and for the five months ended 31st August, 2000 which is finally established to be an over-provision or an excessive reserve;

provided that the amount of any such provision or reserve applied pursuant to these limitations (a) to (f) to reduce the Indemnifiers' liability in respect of Taxation shall not be available in respect of any such liability arising thereafter.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in Hong Kong, the Cayman Islands and the British Virgin Islands.

18. Litigation

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

19. Application for listing of the Shares

The Sponsor has made an application on behalf of the Company to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares that may be issued upon the exercise of the Over-allotment Option or of any options which have been or may be granted under the Pre-IPO Share Option Scheme or the Share Option Scheme on the GEM.

20. Preliminary expenses

The estimated preliminary expenses of the Company are approximately US\$2,500 (equivalent to HK\$19,500) and are payable by the Company.

21. Promoter

- (a) The promoter of the Company is Rax-Comm. Rax-Comm is a company incorporated in the British Virgin Islands with limited liability on 6th November, 2000, the registered office of which is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. As at the Latest Practicable Date, the paid up share capital of Rax-Comm was US\$10,000 divided into 10,000 shares of US\$1 each.

The board of directors of Rax-Comm comprises Mr. H.K. Lau and Mr. Cheng.

- (b) Save as disclosed herein, within the two years preceding the date of this prospectus, no amount or benefit has been paid or given to the promoter named in paragraph 21(a) above in connection with the Placing or the related transactions described in this prospectus.

22. Qualifications of experts

The qualifications of the experts who have given opinions in this prospectus are as follows:

Name	Qualification
Vickers Ballas	Registered investment adviser
KPMG	Certified Public Accountants
Conyers Dill & Pearman, Cayman	Cayman Islands barristers and attorneys
Greater China Appraisal Limited	Chartered surveyors and independent valuers

23. Consents of experts

Each of Vickers Ballas, KPMG, Conyers Dill & Pearman, Cayman and Greater China Appraisal Limited have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, letters, valuation, opinions or summaries of opinions (as the case may be) and the references to their names in the form and context in which they respectively appear.

24. Binding Effect

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

25. Taxation of holders of Shares

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares. It is emphasised that none of the Company, the Directors or the other parties involved in the Placing can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty the current rate of which is \$2.25 for every \$1,000 (or part thereof) of the consideration or, if higher, the fair value of the Shares being sold or transferred.

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

26. Miscellaneous

- (a) Save as disclosed herein:
 - (i) within two years preceding the date of this prospectus:
 - (aa) no share or loan capital of the Company or of any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash; and
 - (bb) 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;
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) there has been no material adverse change in the financial position or prospects of the Group since 31st August, 2000 (being the date to which the latest audited combined financial statements of the Group were made up).
- (b) The Company has no founder shares, management shares or deferred shares.
- (c) Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Bank of Bermuda (Cayman) Limited and a branch register of members of the Company will be maintained in Hong Kong by Hong Kong Registrars Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's share registrar in Hong Kong and may not be lodged in the Cayman Islands.
- (d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

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 “Consents of experts” in Appendix V and copies of the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix V.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of Chiu & Partners at 41st Floor, Jardine House, 1 Connaught Place, Central, Hong Kong during normal business hours up to and including 1st March, 2001:

- the memorandum and articles of association of the Company;
- the accountants’ report prepared by KPMG, the text of which is set out in Appendix I;
- such audited financial statements as have been prepared for the companies comprising the Group for each of two years ended 31st March, 2000 and the five months ended 31st August, 2000;
- the letters relating to the profit forecast of the Group the text of which are set out in Appendix II to this prospectus;
- the letter, summary of values and valuation certificates prepared by Greater China Appraisal Limited relating to the property interests of the Group, the texts of which are set out in Appendix III;
- the rules of the Share Option Scheme and the Pre-IPO Share Option Scheme;
- the Companies Law;
- the letter of advice issued by Conyers Dill & Pearman, Cayman referred to in Appendix IV;
- the service contracts referred to in the paragraph headed “Particulars of service contracts” in Appendix V;
- the material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix V;

- the written consents referred to in the paragraph headed “Consents of experts” in Appendix V; and

- a full list of all holders of the options granted under the Pre-IPO Share Option Scheme, containing the details in respect of such option required under paragraph 10 of Part I of the Third Schedule to the Companies Ordinance (referred to under “Pre-IPO share option scheme” in Appendix V to this prospectus).