



AGL

MediaTech Holdings Limited

藝立媒體科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Placing



Sponsor



South China Capital Limited

Co-Lead Managers



KINGSTON SECURITIES LIMITED



South China Securities Limited

A G L M e d i a T e c h H o l d i n g s L i m i t e d

IMPORTANT

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



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

BY WAY OF PLACING

**Number of Placing Shares : 120,000,000 Shares comprising
80,000,000 New Shares and
40,000,000 Sale Shares
(subject to Over-allotment Option)**

Offer Price : HK\$0.25 per Share

Nominal value : HK\$0.01 each

Stock code : 8192

Sponsor



South China Capital Limited

Co-Lead Managers



KINGSTON SECURITIES LIMITED



South China Securities Limited

Placing Underwriters

**Kingston Securities Limited
Luen Fat Securities Company Limited
Sun Growth Securities Limited**

**South China Securities Limited
Mayfair Securities 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 under "Documents delivered to the Registrar of Companies and available for public inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

Prospective investors of the Placing Shares should note that Kingston, on behalf of the Placing Underwriters, is entitled to terminate the Placing Underwriters' obligations under the Underwriting Agreement by notice in writing to the Company upon the occurrence of any of the events set forth under "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 9:00 a.m. (Hong Kong time) on the date on which certificates for the Placing Shares are scheduled to be despatched to the places under the Placing. Such events include, but without limitation to, acts of governments, strikes, riot, public disorder, terrorist strike, epidemic, lock-outs, fire, explosion, flooding, civil commotion, acts of war or acts of God, accident or interruption.

22nd November, 2002

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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 at *www.hkgem.com* in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

2002

Allotment of the New Shares and transfer of
the Sale Shares to the placees on or before Wednesday, 27th November,

Announcement of the results of the Placing
to be published on the GEM website
at *www.hkgem.com* on Wednesday, 27th November,

Despatch of certificates for the Placing Shares
on or before (*Note 1*) Wednesday, 27th November,

Dealings in the Shares on GEM to commence on Friday, 29th November,

Notes:

1. The certificates for the Placing Shares are expected to be deposited into CCASS on or before Wednesday, 27th November, 2002 for credit to the relevant CCASS participant's stock accounts of the Placing Underwriters, the placees or their agents (as the case may be). No temporary documents of title will be issued.
2. All times refer to Hong Kong local time. Details of the structure of the Placing including its conditions are set out in the section headed "Structure and conditions of the Placing" in this prospectus.
3. If there is any change in the above timetable, a separate announcement will be made by the Company.

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

The Company and the Vendor have 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 Vendor, the Sponsor, the Co-Lead Managers, the Placing Underwriters, any of their respective directors, or any other person involved in the Placing.

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SUMMARY OF THIS PROSPECTUS

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

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” in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

BUSINESS

The Group, being one of the on-line rich media and content distribution solution providers in Hong Kong, has its business focus in developing products and technologies for on-line rich media and content distribution using the tools or solutions developed by it. The content distribution technology developed by the Group covers frontend (i.e. content delivery) and backend (i.e. content management and creation) which can make content delivery and management more efficient and effective in terms of speed, flexibility, functionality and compatibility using minimal computer memory in the process. The content distribution technology developed by the Group can also automate the content distribution process and provide new technique to enhance the overall result of the process.

Along the history of the Group, Mr. Chan and his staff have developed an algorithm (i.e. a logical sequence of steps used in computer programming for problem solving) for the content distribution technology, which has been consistently applied to different products of the Group, ranging from the first eCard to the latest commercialised version of the CDMatrix.

The niche of the Group is to deal with the shortcomings of on-line rich media and content distribution in terms of speed, cost, server’s capacity and interactiveness between the content owners and the audience by the use of content distribution technology. As a result, an advertiser or content owner, that would like to reach its audience/viewers or to acquire viewers’ behavioural information on the Internet may channel its short motion pictures in a low-cost and speedy manner. The Group’s on-line rich media and content distribution solutions, through the applications of the content distribution technology, focus on the following three areas:

- 1) On-line advertising solutions (“OAS”): rich media delivery and users’ behavioural analysis by proprietary advertisement serving system, multimedia presentations in different formats, such as animations and video clips, button and animated banner advertising;
- 2) Mobile advertising solutions (“MAS”): rich media delivery and users’ behavioural analysis by proprietary advertisement serving system on mobile connected devices; and
- 3) Content management solutions (“CMS”): manage rich media contents and other digital contents of a portal site or small/medium corporate sites and provide supporting services in IT consultation and infrastructure improvement.

SUMMARY OF THIS PROSPECTUS

The on-line rich media and content distribution solution business of the Group was started by Mr. Chan and Mr. N. H. Chan in March 2000. Such business, which was operated under different entities during the Track Record Period, has all along been managed and controlled by Mr. Chan. The business was first carried out under the name of HK Concepts Co, a wholly-owned subsidiary of HK Concepts International which was owned by Mr. N. H. Chan and Mr. Chan as to 31% and 32%, respectively, during the period from February 2000 to August 2001. In June 2001, HK Concepts Co transferred all on-line rich media and content distribution solution business, together with the related intellectual property rights, such as business names, domain names and their corresponding rights of usage (details of which are set out in the section headed “Corporate structure, history and active business pursuits” in this prospectus), to Mr. Chan for US\$3,600, an amount representing a bona fide agreement between the parties at the material times and agreed by all shareholders of HK Concepts International. Mr. Chan subsequently transferred the same to Art Global. Apart from the payment of the said US\$3,600, Mr. Chan was solely responsible for HK\$180,000 liabilities pursuant to the above-mentioned transfer, being the estimated amount of provision for severance and compensation (based on the salaries and allowance paid in August and September 2001) for the retained staff (those who subsequently joined the Group as contractors) should the termination of this staff become necessary for commercial reason. Nonetheless, this obligation has not arisen.

At the time of the above-mentioned transfer, HK Concepts Co suffered a loss of HK\$6.2 million for the year ended 31st March, 2001. All the then shareholders of HK Concepts International, save for Mr. Chan and Mr. N. H. Chan, decided to discontinue the on-line rich media and content distribution solution business and to sell it at a low price to Mr. Chan. Following the above-mentioned transfer, Mr. Chan started to develop new products and technologies, which the Directors believe to be able to generate significant income for the Group in the future and to justify the current valuation of the Group.

BUSINESS MODEL

The Group has a focused objective in its business model: to disseminate rich media and content on-line or through connected mobile devices by the use of content distribution technology with the provision of supporting services, such as IT consultation and infrastructure improvement, to customers as a total package. The target of the Group is to become an on-line rich media and content distribution solution provider in Asia.

PRODUCTS OF THE GROUP

OAS

The OAS is an area with products designed for the creation, management and distribution of rich media contents on-line, and the Group has been applying its proprietary technologies in the developments of different products, such as the eCards, i-tvc.net, i-tvServe.net and the CDMatrix, to meet different requirements.

The first product developed by the Group with CDT in OAS was the eCard, as Mr. Chan believed that such new technology would be more marketable by demonstrating to end-users through electronic greeting card formats. As a result, Mr. Chan decided to develop the eCards as the Group’s first

SUMMARY OF THIS PROSPECTUS

product. Mr. Chan, with his knowledge in computer science, developed and encoded the programme code by himself. Unlike the traditional electronic greeting cards (static images or animated slide shows with no programming involved), the Group's eCard incorporated the CDT that allowed the inclusion and distribution of advertisers' contents dynamically on a real-time basis. In addition, the eCard can support all rich media formats and permits advertisers to change the contents. As a result, advertisers can make use of the eCard to place product placement advertisements or to disseminate messages to end-users effectively. The Group's eCards consisted of two parts, namely the eCard itself (i.e. the visible part, being mainly the design) and the underlying technology to deliver the rich media contents (i.e. the non-visible part, being the programming codes).

The Directors consider that the eCards developed by the Group fall within the one focused line of business of the Group as the eCards serve as a distribution channel of rich media contents.

32days.com was launched by Mr. Chan in March 2000 as a character-based portal website to accommodate and advertise the eCard. In April 2000, Mr. Chan commenced the development of a new version of the 32days.com portal. The new portal was launched in June 2000. After the Group engaged with sina.com.tw in a co-branding agreement which expired in September 2001 with no revenue received (sina.com is currently one of the Group's customers on CMS for Office and other services with total sales of HK\$36,700 for the financial year ended 31st March, 2002 (HK\$nil for the financial year ended 31st March, 2001 and the three months ended 30th June, 2002)) and with a portal owned by a listed company in Hong Kong in a revenue sharing licensing arrangement of the Group's eCard which expired in September 2001 with no revenue received, the Group gained increasing publicity through these cooperations. 32days.com portal was therefore no longer required as a promotion tool for the Group. As such, 32days.com was transferred to 32days.com Asia in October 2000 at no consideration with no formal agreement signed. During the period from March 2000 to April 2002, the eCard played the role in promoting the use and the application of CDT developed by the Group and facilitating the designs of other products of the Group. Nevertheless, the role of eCard was subsequently replaced by i-tvc.net as the latter can support additional functions and possess better quality in terms of speed and memory requirement. Although the CDT of the eCard is still retained within the Group, the focus of the Group's OAS products has changed to i-tvc.net and i-tvServe.net, which are collectively known as the "i-tvc.net technologies". The design parts of the eCard were transferred out of the Group to 32days.com Asia at no consideration in April 2002 with no formal agreement signed. 32days.com Asia became dormant since then and all the design parts of the eCard have not been used or disposed of.

The i-tvc.net is a frontend proprietary technology designed for the delivery of short videos and TVCs on-line. It is an advanced application of CDT for the on-line rich media and content distribution. Unlike the eCard which is in the form of an electronic greeting card, i-tvc.net can form part of a webpage, button, pop-up window or as a stand-alone player. In addition, this patent pending technology allows i-tvc.net to become more effective in short video delivery because it includes the programme codes to access CDT located on the i-tvServe.net. Through this arrangement, client-side performance will improve and the content distribution capability will expand through an external server. Despite these disparities, i-tvc.net shares similar features with the eCards, such as interactivity, dynamic contents and compatibility with rich media formats.

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In July 2001, the Group combined a self-developed advertising tool with a proprietary player for playing video on-line to create the i-tvc.net player. In January 2002, a new version of the i-tvc.net player was developed by the Group with the incorporation of a progressive interlacing video delivery technology and a function that supports the interactive contents to be delivered to targeted users (both are pending patent registrations in the United States).

The i-tvc.net, unlike streaming technologies which require backend servers to be engaged throughout the connection (usually the cause of un-desired flickering), releases the backend servers as soon as the contents are delivered. With the use of artificial intelligence, i-tvc.net uses the progressive interlacing video delivery technology to enhance the playback speed and the quality, whereas streaming technologies can only deliver such video quality as limited by the connection speed.

The i-tvServe.net, a backend proprietary advertising serving system, was first developed in July 2001 by Mr. Chan and his research team to deliver on-line advertisements, such as buttons, banners, animated creatives and TVCs, at a high speed. The i-tvServe.net possesses requisition ability which allows content owners to obtain detailed information on the status and the effectiveness of campaigns on a real-time basis. As a result, on-line advertisers are able to achieve not only message delivery but also response collection, which allows them to develop appropriate marketing strategies and campaigns.

The i-tvc.net technologies were first tested in TVB.COM on 28th March, 2002, which was viewed at about 132,000 times during the seven-days campaign period.

The CDMatrix is a tool designed with an objective to enable automatic creation, management and distribution of rich media contents by non-professional users.

In early 2000, Mr. Chan and his team found that it was a good opportunity to develop a tool to facilitate the creation and the management of rich media contents. It was also necessary to develop such tool for the Group's use to better utilize the Group's resources by allocating non-technical staff to perform the content creation for the Group's client.

In September 2000, after completion of the diligent research, the feasibility studies and the pre-production steps, the Group started the development of the CDMatrix. The development has gone through two stages. In the first stage of development, CAIC was sub-contracted by the Group to provide supportive functions, including programme encoding and testing of the CDMatrix. The CDMatrix was used for the development of rich media contents for the Group's customers of on-line advertising solutions. It also allows the automatic creation by non-professional users of rich media contents with animations, text effects, sound clips. Without the CDMatrix, such contents would have been produced manually by designers and programmers. The CDMatrix is currently in its second stage of development with a testing commercialised version that allows users to create rich media contents and to distribute such contents on-line using the Group's servers. This commercialised version is expected to be launched by the Group in September 2003.

SUMMARY OF THIS PROSPECTUS

The CDMatrix is a content distribution and multimedia creation tool. With on-line servers, the CDMatrix provides accessibility as well as simplicity in content creation and distribution as the interface is adaptable to multiple formats and applications. As a result, users of the CDMatrix can create, modify and distribute rich media contents targeting audiences in a relatively short period of time through computer servers.

Notwithstanding the above OAS products, the Group also has an in-house design team that offers themed website development and creative advertising services to ensure the quality of the total packaged OAS. A customer can engage the Group to create a tailor-made themed website according to its specifications and requirements. As at the Latest Practicable Date, the Group had a team of eight R&D staff with an average of four years' experience in on-line advertisements creation and website development.

MAS

The i-tvc.net technologies are transferable to other platforms, such as connected mobile devices. By implementing these technologies in connected mobile devices, the accessibility of advertisements will be extended. Apart from advertising, CDT can also be applied to other multimedia, such as interactive gaming, movie, music industries, etc.

The Group started the development of i-tvc.net player on PDAs in April 2002. The first player was developed in the same month. For mobile phones, the currently available 2.5G services already support full functions of the Group's i-tvc.net technologies.

Similar to their applications in on-line advertising, the Group's MAS products support the delivery of rich media contents through connected mobile devices. By employing technologies in i-tvServe.net, the MAS products allow connected mobile device users to reply by sending a special code through their mobile phones.

For advertisers, the Group's MAS products enable advertisers to collect consumers' response to a particular advertisement. Each interaction is capable of containing text, images or music clips to be sent to the consumers' connected mobile devices. Future applications may include games and contests, e-coupon offerings, information requests, news updates, important reminders and alerts, ring tones and graphical information.

CMS

The CMS is a tool that allows staff from different departments within an organisation to create, edit, manage and publish a variety of web contents, such as text, graphics and video, etc., under a centralised set of rules, processes and workflows so as to ensure a coherent, validated website appearance.

In November 2000, the Group completed the development of its CMS products which are compatible with different system configurations for the needs of enterprises and portal operators of different size. The CMS products developed by the Group support cataloging and browsing of rich

SUMMARY OF THIS PROSPECTUS

media contents, such as images, sound clips, videos and animations, with two standard versions offered - the CMS for Portal and the CMS for Office. The Group completed the development of various CMS modules in March 2001, such as Membership, Email Broadcasting, Forum and Chat Room. The first sale of the Group's CMS product was in August 2001 to an international airline operator.

The CMS for Portal is designed for portal with different features, such as load-balance configuration, rich media cataloging and browsing, i-tvc.net support, video streaming, automated content update, promotion campaign, eShop, SMS connectivity, advertising serving system, chat room, forum, polling system, webmail, etc.

The CMS for Office is designed for enterprises with different features, such as project collaboration, forum, document library, webmail, rich media cataloging and browsing, database connectivity, remote access, calendaring, web front, etc. The enhanced version with functions incorporated from i-tvc.net technologies is expected to be launched in December 2002.

The CMS products developed by the Group are equipped with an end-to-end capability that allows information from backend content management to the presentation of that content in on-line platforms, such as a web browser or connected mobile devices.

The Group started providing IT consultation and infrastructure enhancement services for its CMS customers in July 2001 which include hardware and software installation, computer system integration, system programming, server collocation, server building, computer system building, computer network building, etc.

The Group charges its customer for IT consultation and infrastructure projects on either a time and material costs basis or a fixed fee basis.

PRINCIPAL STRENGTHS OF THE GROUP

The Directors consider that the Group has the following key principal strengths:

- having a R&D team committed to the development of value-added and customised products in OAS, MAS and CMS;
- having a management team with strong experience and expertise in on-line rich media and content distribution businesses;
- having equipped with proprietary applications, such as i-tvc.net and i-tvServe.net (both are pending patent registrations in the United States);
- having the capability to enhance the value of on-line advertising by data requisition ability of the Group's i-tvc.net technologies; and
- committing to product and service quality that reinforce the relationships with its customers.

SUMMARY OF THIS PROSPECTUS

BUSINESS OBJECTIVE AND STRATEGIES

In the light of the Group's progress and achievement over the Track Record Period, the Directors have confidence in the growth of the Group's business in the future and have determined to make the Group to be an on-line rich media and content distribution solution provider in Asia with primary focus in Hong Kong. In order to achieve this business objective, the Directors have formulated the following strategies:

Continue to develop its CMS and i-tvc.net technologies as well as other rich media solutions

In order to further enhance its CMS and i-tvc.net technologies as well as other rich media content distribution solutions, the Group will continue to strengthen its R&D capabilities. The Directors intend to recruit ten additional programmers for the R&D team by March 2003, and to purchase new equipment and design tools to enhance the functions and features of the various products developed by the Group.

The Directors believe that ongoing R&D in new products and technologies is crucial in enhancing the Group's market position. The focus of the Group is to expand the i-tvServe.net capability by adding different components. By achieving this, the Directors believe that both the technological strength and the business prospects of the Group will be further enhanced.

Develop new applications for connected mobile devices

The Group will continue to improve and develop the new MAS products for connected mobile devices, with key initiatives in the development of applications that support 3G mobile phones and PDAs that operate on different operating systems.

Enhance the infrastructure to expand the capacity for delivering services

Development and application of up-to-date technology is a prerequisite to success in on-line rich media and content distribution solution business. In order to maintain its competitiveness, the Group will upgrade and enhance its infrastructure by acquiring additional computer servers and installing new computer hardware and software.

Marketing campaigns

The Group will implement a series of marketing activities to enhance the market awareness of the Group's products and services. The Directors plan to invest approximately HK\$1,000,000 in marketing activities for the period up to 30th September, 2005.

Expand geographical presence through business alliances and achieve business growth through acquisitions of complementary companies

The Directors have selected certain regions with high-growth potential, such as, the PRC and some Asian countries, to promote and market its products and services through signing up with local solution providers and existing on-line advertising agencies. In order to expand its business geographically, the Group plans to form strategic/business alliances with companies and business partners in their respective industries to strengthen the Group's R&D capabilities and to gain access to different sales channels.

SUMMARY OF THIS PROSPECTUS

The Directors consider that acquisitions of companies with complementary business, such as content delivery and distribution programming houses, rich media graphic design houses or other rich media and content distribution solutions' providers, will create synergy to the Group's business. **Nevertheless, as at the Latest Practicable Date, the Directors did not identify/or invest in any potential acquisition target nor did they identify any business alliance partner.**

TRADING RECORD

The following is a summary of the audited combined results of the Group for each of the two years ended 31st March, 2002 and for the three months ended 30th June, 2002, which have been extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus. This summary has been prepared on the basis of presentation as set out in note 1 to Section A of the accountants' report and should be read in conjunction with the accountants' report, the text of which is set forth in Appendix I to this prospectus:

	<i>Notes</i>	Year ended 31st March,	Year ended 31st March,	Three months
		2001	2002	ended
		<i>HK\$'000</i>	<i>HK\$'000</i>	30th June,
				2002
				<i>HK\$'000</i>
Turnover	1			
OAS		—	1,020	90
MAS		3	12	—
CMS		—	2,749	732
		<u> </u>	<u> </u>	<u> </u>
Total		3	3,781	822
Other operating income		1	—	—
Interest income		256	11	—
Research and development expenditures		(5,991)	(867)	(184)
Selling expenses		(146)	(176)	(48)
Administrative expenses		(360)	(1,838)	(559)
		<u> </u>	<u> </u>	<u> </u>
(Loss) profit from operations		(6,237)	911	31
Finance costs		(3)	(1)	—
		<u> </u>	<u> </u>	<u> </u>
(Loss) profit before taxation		(6,240)	910	31
Taxation		—	(193)	(13)
		<u> </u>	<u> </u>	<u> </u>
Net (loss) profit for the year/period		<u>(6,240)</u>	<u>717</u>	<u>18</u>
Dividend		<u> </u>	<u> </u>	<u> </u>
(Loss) earnings per Share, in HK cents	2			
Basic		<u>(1.60)</u>	<u>0.18</u>	<u>0.005</u>
Diluted		<u>(1.60)</u>	<u>0.17</u>	<u>0.004</u>

SUMMARY OF THIS PROSPECTUS

The Group entered into an agreement with 32days.com Asia, 99.9% of its issued share capital was held by Yorkmax Investments Ltd. during the period from December 2001 to April 2002 and the largest customer of the Group for the year ended 31st March, 2002 and the three months ended 30th June, 2002, to provide site management and content management services for a period of 10 months at HK\$100,000 per month since 15th September, 2001 for a total consideration of HK\$1,000,000. The whole service completed with income recognised based on services rendered on each month for the period from September 2001 to June 2002 with all balances settled in June 2002. In addition, the Group also sold CMS for Portal to 32days.com Asia for a total consideration of HK\$390,000 in September 2001 when 32days.com Asia was not held by Yorkmax Investments Ltd.

The total amount of HK\$1,000,000 received for ten monthly instalments (from September 2001 to March 2002 for the year ended 31st March, 2002 and from April 2002 to June 2002 for the three months ended 30th June, 2002) based on the above-mentioned agreement and the HK\$390,000 for the sale of CMS for Portal represented 29% and 36% of the total turnover for the year ended 31st March, 2002 and the three months ended 30th June, 2002, respectively. As such, the amounts of HK\$1,090,000 and HK\$300,000 were included as revenue earned in the Group's turnover and profit for the year ended 31st March, 2002 and the three months ended 30th June, 2002.

As the Group does not intend to renew the above-mentioned arrangements and the agreement was completed with income recognised from September 2001 to June 2002 and settled in June 2002, the termination of this income source could adversely affect the financial position of the Group should it be unable to explore new income source from other Independent Third Parties. Moreover, the record of the sales of HK\$1,090,000 and HK\$300,000 to 32days.com Asia in the Group's turnover for the year ended 31st March, 2002 and the three months ended 30th June, 2002 may not be reflective of the Group's results in the future. The Directors and the Sponsor are of the view that these transactions, which included the continuation of the CMS service contract with 32days.com Asia from April 2002 to June 2002 even 32days.com portal was inactive since April 2002, arose from the ordinary course of business of the Group and that the considerations were reasonable and agreed on normal commercial terms, which represented genuine considerations for the services provided by the Group.

Notes:

1. On-line advertising projects are classified as long-term projects or short-term projects. Revenue is recognised using the percentage of completion method for long-term projects whereas revenue is recognised for short-term project when the project is completed.

Revenue from content management solutions is recognised when the management services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

2. The calculation of (loss) earnings per Share for each of the two years ended 31st March, 2001 and 31st March, 2002 and the three months ended 30th June, 2002 respectively is based on the net (loss) profit during the corresponding year/period under review and the 400,000,000 Shares deemed to be in issue throughout the period/year under review.

SUMMARY OF THIS PROSPECTUS

The calculation of diluted loss per Share for the year ended 31st March, 2001 does not assume the exercise of the share options as their exercise would result in a decrease in loss per Share.

The diluted earnings per share for the year ended 31st March, 2002 and the three months ended 30th June, 2002 is based on the Group's net profit for the year/period of HK\$717,000 and HK\$18,000 respectively and on the weighted average of 429,793,102 shares issued and issuable (after adjusting for the deemed issue of 29,793,102 shares, calculated with reference to the number of shares issuable under the Pre-IPO Share Option Scheme.

3. Each of the Directors of the Company has entered into a service contract or a letter of appointment with the Company subsequent to 30th June, 2002. The aggregate emoluments payable to the Directors of the Company will amount to approximately HK\$3,498,000 per annum. Had the emoluments paid to the Directors for the Relevant Periods been based on the above-mentioned service contracts or letters of appointment and the charge to the combined results of the Group after taxation would have been as follows:

	Year ended 31st March,		Three months ended 30th June,
	2001	2002	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net (loss) profit for the year/period	(6,240)	717	18
Add: Directors' remuneration paid for the year/period after tax effect (<i>Note</i>)	210	523	73
Less: Notional directors' remuneration after tax effect (<i>Note</i>)	(2,938)	(2,938)	(735)
Adjusted net loss for the year/period	(8,968)	(1,698)	(644)

Note: The tax effect is calculated at Hong Kong profits tax rate of 16%.

REASONS FOR THE PLACING AND USE OF NET PROCEEDS FROM THE NEW ISSUE

The Directors perceive increasing business opportunities in the Asia-Pacific markets because of the continuous developments in on-line rich media and content distribution solution business. In order to uphold the Group's competencies and to explore these markets, the net proceeds from the New Issue, which are estimated to be approximately HK\$14.6 million (assuming the Over-allotment Option is not exercised), will be used to implement the strategic plans as follows:

- as to approximately HK\$3.6 million for the purchase of design and development tools and the recruitment of additional staff to develop and enhance its CMS and i-tvc.net technologies and the R&D capability of new rich media solutions;
- as to approximately HK\$3.6 million for the purchase of development tools and the recruitment of additional staff to facilitate the development of new MAS for connected mobile devices, with key initiatives in the development of applications that support 3G mobile phones and PDAs that operates on different operating systems;
- as to approximately HK\$1.7 million for the enhancement of the infrastructure of the Group to expand the capacity for delivering services, including acquisition of additional servers, computer hardware and software;

SUMMARY OF THIS PROSPECTUS

- as to approximately HK\$1 million for brand-building and marketing campaigns;
- as to approximately HK\$1.7 million for the expansion of the Group's geographical presence in markets in Asia by forming strategic and business alliances with companies and business partners in different countries and to achieve business growth through acquisitions of complementary companies; and
- as to the balance of approximately HK\$3 million for additional working capital of the Company.

Should the Over-allotment Option be exercised in full, the Group will receive additional net proceeds of approximately HK\$3 million, which together with the net proceeds from the New Issue, after deducting related expenses, will amount to approximately HK\$17.6 million. The Directors intend to allocate the additional proceeds raised from the exercise of the Over-allotment Option of approximately HK\$3 million pro-rata to the above-mentioned purposes.

It is currently estimated that the net proceeds from the New Issue, the cash in bank or on hand as at the Latest Practicable Date together with the projected cashflow from operations will be sufficient for the Group to carry out its business plans up to the year ending 30th September, 2005. In the event that the Group cannot attain its projected level of cashflow, the Group may be required to raise additional funding through, among other sources, the equity and debt markets and bank financings or a combination of both. However, there is no assurance that the Group will be able to raise such additional funding, details of which are set out under "The Group's inability to obtain adequate funding in the future" under the section headed "Risk factors" in this prospectus.

To the extent that the net proceeds from the New Issue are not immediately used for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short-term interest bearing deposits with authorised financial institutions in Hong Kong.

SUMMARY OF THIS PROSPECTUS

SCHEDULE OF USE OF NET PROCEEDS FROM THE NEW ISSUE

Set out below is a table summarising the intended timing of the use of the net proceeds from the New Issue. Such time-table only represents the best estimates made by the Directors based on the subsisting facts and circumstances. There is no assurance that the following table will be strictly adhered to though an announcement will be made by the Company in case of material deviation.

	From the Latest Practicable Date to		For the six months ending				Total
	31st March, 2003	30th September, 2003	31st March, 2004	30th September, 2004	31st March, 2005	30th September, 2005	
	<i>(HK\$ million)</i>						
R&D to enhance CMS, i-tvc.net technologies and rich media solutions	0.2	0.9	0.9	0.7	0.5	0.4	3.6
Develop new MAS applications	0.2	0.9	0.9	0.7	0.5	0.4	3.6
Enhancement of the infrastructure	0.2	0.8	0.4	0.2	0.1	—	1.7
Brand-building and marketing	0.1	0.3	0.2	0.2	0.1	0.1	1
Geographical business expansion and acquisitions of complementary companies	0.2	0.4	0.4	0.4	0.2	0.1	1.7
Working capital	<u>0.8</u>	<u>0.8</u>	<u>0.6</u>	<u>0.4</u>	<u>0.2</u>	<u>0.2</u>	<u>3</u>
	<u><u>1.7</u></u>	<u><u>4.1</u></u>	<u><u>3.4</u></u>	<u><u>2.6</u></u>	<u><u>1.6</u></u>	<u><u>1.2</u></u>	<u><u>14.6</u></u>

SUMMARY OF THIS PROSPECTUS

PLACING STATISTICS

Offer Price (per Share)	HK\$0.25
Market capitalisation (<i>Note 1</i>)	HK\$120 million
Adjusted net tangible asset value per Share (<i>Note 2</i>)	3.5 HK cents

Notes:

1. The calculation of the market capitalisation is based on the Offer Price and 480,000,000 Shares in issue immediately following completion of the Placing and the Capitalisation Issue but takes no account of any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option, any option granted under the Pre-IPO Share Option Scheme or any option that may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this prospectus.
2. The adjusted net tangible asset value per Share is arrived at after making the adjustments set out under “Adjusted net tangible assets” in the section headed “Financial information” in this prospectus and on the basis of a total of 480,000,000 Shares in issue and to be issued immediately following completion of the Placing and the Capitalisation Issue but takes no account of any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option, any option granted under the Pre-IPO Share Option Scheme or any option that may be granted under the Share Option Scheme, or any Shares which may be allotted and issued or repurchased by the Company pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in Appendix IV to this prospectus.

If the Over-allotment Option is exercised in full or in part, the adjusted net tangible asset value per Share will decrease. However, the Directors are of the view that this will not have any material effect on the Shareholders.

If the options granted under the Pre-IPO Share Option Scheme are exercised in full, the adjusted net tangible asset value per Share will become 3.2 HK cents.

SUMMARY OF THIS PROSPECTUS

INITIAL MANAGEMENT SHAREHOLDERS AND OTHER EXISTING SHAREHOLDERS OF THE COMPANY IMMEDIATELY FOLLOWING COMPLETION OF THE PLACING AND THE CAPITALISATION ISSUE

The interests of the Initial Management Shareholders and the other Shareholders immediately following completion of the Placing and the Capitalisation Issue (and taking no account of any Shares taken up under the Placing and any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option, any option granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Share Option Scheme), the cost at which they acquired their Shares and the relevant Moratorium Period are set out below:

Name of shareholder	Date on which shareholding interest in the Group was first acquired	Number of Shares held immediately following completion of the Placing and the Capitalisation Issue	Approximate percentage of shareholding immediately following completion of the Placing and the Capitalisation Issue (%)	Moratorium Period	Approximate cost per Share (HK\$)
City Pacific Ventures Limited <i>(Note 3)</i>	23rd October, 2002 <i>(Note 1)</i>	360,000,000 <i>(Note 3)</i>	75% <i>(Note 4)</i>	12 months	0.00003
Joy Ventures <i>(Note 3)</i>	23rd October, 2002 <i>(Note 2)</i>	360,000,000 <i>(Note 3)</i>	75% <i>(Note 4)</i>	12 months	0.00003
Mr. Chan <i>(Notes 3, 5, 6)</i>	14th June, 2001 <i>(Note 6)</i>	216,000,000	45%	12 months	0.00003
Mr. N. H. Chan <i>(Notes 3, 6, 7)</i>	14th June, 2001 <i>(Note 6)</i>	144,000,000	30%	12 months	0.00003

Notes:

- (1) The date when Yorkmax Investments Ltd. became a wholly-owned subsidiary of the Company under the Reorganisation.
- (2) The date when all the issued shares of City Pacific Ventures Limited were transferred to Joy Ventures pursuant to the trust arrangement as referred to in Note (3) below.
- (3) Immediately before the Placing and the Capitalisation Issue, City Pacific Ventures Limited holds 100% of the issued Shares. City Pacific Ventures Limited is wholly-owned by Joy Ventures as trustee of The WCY Unit Trust, all but one units of which are beneficially owned by The CNH Trust. The remaining one unit of The WCY Unit Trust is beneficially owned by Ms. Wong Cheung Yun (the mother of Mr. Chan). HSBC International Trustee Limited and Ms. Wong Cheung Yun are the trustee and the protector of The CNH Trust, respectively. The discretionary objects of The CNH Trust during the Moratorium Period are Mr. Chan (as to 60% of the trust assets) and Mr. N. H. Chan (as to 40% of the trust assets) and thereafter are the family members of Mr. Chan and Mr. N. H. Chan including, but not limited to themselves, Ms. Han Seung A (the spouse of Mr. Chan), Ms. Wong Cheung Yun and Ms. Chan Shiu Shu (the daughter of Mr. Chan). Joy Ventures is wholly-owned by The CNH Trust. In accordance with the terms of the trust deed of The CNH Trust, Mr. Chan, as the settlor of The CNH Trust, has conferred the widest possible discretionary power onto HSBC International Trustee Limited as to the administration of the trust fund. Hence, HSBC International Trustee Limited has a complete and unfettered

SUMMARY OF THIS PROSPECTUS

discretion as to whether or not to make any distribution, the amount of the distribution, which beneficiaries will receive the distribution, the investment of the trust fund and early termination of the trust period, subject to the restriction that no distribution of the trust fund shall be made under The CNH Trust during the Moratorium Period. To this end, HSBC International Trustee Limited will not be influenced by Mr. Chan to cause any disposal of the Shares. In accordance with the terms of the trust deed of The CNH Trust, the protector, Ms. Wong Cheung Yun, has the power to remove HSBC International Trustee Limited as the trustee of The CNH Trust and appoint a replacement. As such, Ms. Wong Cheung Yun will exercise this removal power if it is found that HSBC International Trustee Limited has any serious mismanagement or misconduct as to the trust fund.

- (4) Assuming that the Over-allotment Option is exercised in full, City Pacific Ventures Limited will hold 73.17% of the entire issued Shares immediately following completion of the Placing and the Capitalisation Issue.
- (5) Mr. Chan is a discretionary object of The CNH Trust. Please refer to Note (3) above for details of the trust arrangement. Mr. Chan became a shareholder of Yorkmax Investments Ltd. on 14th June, 2001, holding 900 shares, representing 60% of the total issued shares of Yorkmax Investments Ltd. Pursuant to the Reorganisation, Mr. Chan's 900 shares in Yorkmax Investments Ltd. were exchanged for 60 shares in the issued share capital of City Pacific Ventures Limited, which, together with another 60 shares in the issued share capital of City Pacific Ventures Limited originally held by Mr. Chan (in aggregate representing 60% of the issued share capital of City Pacific Ventures Limited), were subsequently transferred to Joy Ventures for the purpose of setting up the trust arrangement mentioned in Note (3) above.
- (6) Yorkmax Investments Ltd. was incorporated as the holding company of Art Global, to which Mr. Chan transferred the on-line content distribution solution business acquired from HK Concepts Co. in June 2001. HK Concepts Co is a wholly-owned subsidiary of HK Concepts International which, before June 2001, was owned as to 32% and 31% by Mr. Chan and Mr. N. H. Chan, respectively. Mr. Chan and Mr. N. H. Chan were two of the co-founders of HK Concepts International. They founded the Group in March 2000 when HK Concepts Co was established, which carried on the on-line content distribution solution business of the Group before the same was transferred to Mr. Chan, and then to Art Global as aforesaid. Please refer to the section headed "Corporate structure, history and active business pursuits" in this prospectus for further information.
- (7) Mr. N. H. Chan is also a discretionary object of The CNH Trust. Please refer to Note (3) above for details of the trust arrangement. Mr. N. H. Chan became a shareholder of Yorkmax Investments Ltd. on 14th June, 2001, holding 600 shares, representing 40% of the total issued shares of Yorkmax Investments Ltd. Pursuant to the Reorganisation, Mr. N. H. Chan's 600 shares in Yorkmax Investments Limited were exchanged for 40 shares in the issued share capital of City Pacific Ventures Limited, which, together with another 40 shares in City Pacific Ventures Limited originally held by Mr. N. H. Chan (in aggregate representing 40% of the issued share capital of City Pacific Ventures Limited), were subsequently transferred to Joy Ventures for the purpose of setting up the trust arrangement mentioned in Note (3) above.

Each of the Initial Management Shareholders has undertaken to the Company, South China Capital (except Mr. N. H. Chan) and the Stock Exchange that he or it will not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) the Relevant Securities held by him or it immediately prior to the Listing Date and during the Moratorium Period, except as otherwise permitted under the GEM Listing Rules.

SUMMARY OF THIS PROSPECTUS

RISK FACTORS

The Directors consider that there are certain risks involved in investing in the Group and such risks can be categorised into (i) risks relating to business and operations of the Group; (ii) risks relating to the industry; (iii) risks relating to political and economic considerations; and (iv) risks relating to the Placing and information in this prospectus, which are summarised as follows:

Risks relating to business and operations of the Group

- One-off sales to a connected person
- Reliance on major customers
- No assurance of revenue, profitability and successful future operation
- Overweighting of turnover derived from CMS
- Track Record Period results not reflective of future results
- Directors' emoluments
- The Group's inability to obtain adequate funding in the future
- Credit risk
- Protection of proprietary technologies
- The Group's reliance on external R&D support
- Competing products of i-tvc.net
- Security risks of proprietary technologies
- The Group's potential liability for information retrieved from its portal network
- Product liability
- The Group's reliance on certain key management personnel

SUMMARY OF THIS PROSPECTUS

Risks relating to the industry

- Growth in the use of the Internet
- Intense competition
- Rapid technological changes
- Government regulation and legal uncertainties

Risks relating to political and economic considerations

- Economic conditions of Hong Kong
- Currency exchange risk
- Risks in geographical expansion of operations

Risks relating to the Placing and information in this prospectus

- Proceeds from the New Issue may not be used as described
- Forward-looking statements contained in this prospectus may not be accurate
- Minimum public float and dilution effect after the exercise of any of the options granted under the Pre-IPO Share Option Scheme

DEFINITIONS

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

“32days.com Asia”	32days.com Asia Company Limited, a company incorporated in Hong Kong on 20th October, 2000 with limited liability, with 700 shares and 300 shares held by HK Concepts Co (now known as Capital Automation Company Limited) and Mr. Chan, respectively, as at the date of its incorporation. On 22nd December, 2001, HK Concepts Co and Mr. Chan transferred an aggregate of 999 shares in 32days.com Asia to Yorkmax Investments Ltd. On 25th April, 2002, Yorkmax Investments Ltd. transferred 998 shares and 1 share in 32days.com Asia to Mr. Chan and Ms. Han Seung A, respectively. As a result, 32days.com Asia is currently owned by Mr. Chan and Ms. Han Seung A as to 999 shares and 1 share, respectively. 32days.com Asia is a connected person (as defined under the GEM Listing Rules) of the Company as at the date of this prospectus
“Art Global”	Art Global Limited, a company incorporated in Hong Kong on 8th June, 2001 with limited liability, being a wholly-owned subsidiary of the Company
“associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“BVI”	the British Virgin Islands
“CAIC”	CAI Concepts, Inc., a company incorporated on 30th May, 2000 under the laws of the State of North Carolina, the United States, which was dissolved on 6th February, 2002 under the applicable laws, was a wholly-owned subsidiary of HK Concepts International during the period between 13th February, 2001 and the date of dissolution, and is not a member of the Group
“Capitalisation Issue”	the issue of Shares to be made upon capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to under “Written resolutions of the sole member passed on 26th October, 2002” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Co-Lead Managers”	Kingston and South China Securities
“Companies Law”	the Companies Law (2002 Revision) of the Cayman Islands

DEFINITIONS

“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	AGL MediaTech Holdings Limited (藝立媒體科技控股有限公司), an exempted company incorporated in the Cayman Islands on 28th May, 2002 with limited liability
“Director(s)”	the director(s) of the Company
“FAC/Equities”	the equity research and investment banking division of First Albany Corporation with head office in the United States, providing analysis on companies in technology sector in the United States
“First Relevant Period”	the period from 1st April, 2000 to 31st March, 2001
“Forward Looking Period”	the period commencing from the Latest Practicable Date to 30th September, 2005
“Gartner G2”	a research company headquartered in the United States providing analyses on trends and technologies in the Internet sector
“GDP”	gross domestic product
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of directors of the Stock Exchange with responsibility for GEM
“GEM Listing Division”	the listing division of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange
“GEM website”	the website of GEM with the domain name of <i>www.hkgem.com</i>
“Group”	the Company and its subsidiaries or, where the context so requires, in respect of the period before June 2001, HK Concepts Co and in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or any of them
“HK Concepts Co”	HK Concepts Co Limited (currently known as Capital Automation Company Limited), a company incorporated in Hong Kong on 8th March, 2000 with limited liability and a wholly-owned subsidiary of HK Concepts International

DEFINITIONS

“HK Concepts International”	HK Concepts International Limited, a company incorporated in Niue Islands on 16th February, 2000
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IDC”	International Data Corporation, a division of International Data Group with headquarters in the United States providing technology industry analysis information, market data, and strategic and tactical guidance to various industries
“Independent Third Party”	an independent third party not connected with the directors, chief executive, substantial shareholders, management shareholders of the Company or any of its subsidiaries or any of their respective associates
“Initial Management Shareholders”	the initial management shareholders (as defined in the GEM Listing Rules) of the Company as described in the section headed “Substantial shareholders, Initial Management Shareholders and significant shareholder” in this prospectus
“Internet Research Group”	a consulting, market research, and information service firm with headquarter in the United States focusing on Internet infrastructure technologies
“Joy Ventures”	Joy Ventures International Limited, a company incorporated in the BVI on 8th August, 2002 with limited liability and is wholly-owned by The CNH Trust
“Kingston”	Kingston Securities Limited, a registered dealer under the Securities Ordinance
“Latest Practicable Date”	30th September, 2002, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing Date”	the date on which dealings in the Shares on GEM first commence
“Main Board”	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM
“META”	META Group, a research and consulting firm based in the United States focusing on information technology and business transformation strategies
“Moratorium Period”	a period of 12 months commencing from the Listing Date

DEFINITIONS

“Mr. Chan”	Mr. Chan Tik Yuen, one of the two co-founders of the Group, an executive Director and the Chairman and chief executive officer of the Group and is also one of the Initial Management Shareholders
“Mr. N. H. Chan”	Mr. Chan Ngan Hoi, one of the two co-founders of the Group, the father of Mr. Chan and one of the Initial Management Shareholders
“New Issue”	the issue of the New Shares pursuant to the Placing
“New Shares”	80,000,000 new Shares to be issued at the Offer Price under the Placing and where relevant, any additional Shares to be issued pursuant to the Over-allotment Option
“Offer Price”	the price of HK\$0.25 per Placing Share
“Over-allotment Option”	the option granted by the Company to the Placing Underwriters, exercisable by South China Capital (on behalf of the Placing Underwriters) pursuant to the Underwriting Agreement under which the Company may be required to issue up to 12,000,000 additional new Shares, representing 10% of the Placing Shares, to cover over-allocations in the Placing
“Placing”	the conditional placing of the Placing Shares at the Offer Price to professional, institutional and other investors as described in the section headed “Structure and conditions of the Placing” in this prospectus
“Placing Shares”	120,000,000 Shares comprising the New Shares and the Sale Shares being conditionally placed by the Placing Underwriters pursuant to the Placing with additional Shares to be issued pursuant to the exercise of the Over-allotment Option, and described in the section headed “Structure and conditions of the Placing” in this prospectus
“Placing Underwriters”	Kingston, South China Securities, Luen Fat Securities Company Limited, Mayfair Securities Limited and Sun Growth Securities Limited
“PRC” or “China”	the People’s Republic of China, which shall for the purpose of this prospectus and for geographical reference only, excludes Hong Kong, Taiwan and Macau Special Administrative Region of the People’s Republic of China

DEFINITIONS

“Pre-IPO Share Option Scheme”	the share option scheme conditionally approved by the sole member of the Company on 26th October, 2002, the principal terms of which and the outstanding options granted hereunder are summarised under “Share Option Schemes” in Appendix IV of this prospectus
“Relevant Securities”	has the meaning as ascribed thereto in Rule 13.15 of the GEM Listing Rules
“Reorganisation”	the reorganisation of the Group now comprising the Company, particulars of which are set out under “Reorganisation” in Appendix IV to this prospectus
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	40,000,000 existing Shares being offered for sale by the Vendor at the Offer Price under the Placing
“SDI Ordinance”	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)
“Second Relevant Period”	the period from 1st April, 2001 to 31st March, 2002
“Securities Ordinance”	the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“SFC”	The Securities and Futures Commission of Hong Kong
“Share(s)”	share(s) of HK\$0.01 each in the share capital of the Company
“Share Option Scheme”	the share option scheme conditionally approved by the sole member of the Company on 26th October, 2002, the principal terms of which are summarised under “Share Option Schemes” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Shares
“South China Capital” or “Sponsor”	South China Capital Limited, an investment adviser registered under the Securities Ordinance and the sponsor of the listing of the Shares on GEM
“South China Securities”	South China Securities Limited, a registered dealer under the Securities Ordinance
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

DEFINITIONS

“The CNH Trust”	a discretionary trust set up by Mr. Chan on 25th September, 2002 with HSBC International Trustee Limited as its sole trustee and whose only discretionary objects are Mr. Chan and Mr. N. H. Chan until the expiry of the Moratorium Period
“The WCY Unit Trust”	a unit trust duly settled in BVI on 26th September, 2002 with Joy Ventures as its sole trustee
“The Yankee Group”	a group headquartered in the United States providing technology research, consulting services and IT products
“Third Relevant Period”	the period from 1st April, 2002 to 30th June, 2002
“Track Record Period”	the period from 1st April, 2000 to 30th June, 2002
“Underwriting Agreement”	the conditional placing and underwriting agreement dated 22nd November, 2002 entered into between, among others, the Company, the Sponsor, the Co-Lead Managers and the Placing Underwriters relating to the Placing, particulars of which are summarised in the section headed “Underwriting” in this prospectus
“Vendor”	City Pacific Ventures Limited, a company incorporated in the BVI on 18th April, 2002 with limited liability and wholly-owned by Joy Ventures, which is the trustee of The WCY Unit Trust
“WTO”	World Trade Organisation
“Yorkmax Investments Ltd.”	a company incorporated in the BVI on 24th April, 2001 with limited liability and a wholly-owned subsidiary of the Company
“HK\$” and “cents”	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the US
“sq. m.”	square metres
“%”	per cent.

All figures are converted (where relevant) for the purpose of this prospectus from (1) sq.m. to sq.ft. at 1 sq.m. = 10.764 sq.ft., (2) US\$ to HK\$ at US\$1 = HK\$7.78 and (3) RMB to HK\$ at RMB1.06 = HK\$1.00.

No representation is made that any amount in RMB, US\$ or HK\$ would have been or could be converted at the above rates or at any other rates or at all.

GLOSSARY OF TECHNICAL TERMS

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

“ASP”	“active server pages” is an open web application platform that combines servers scripting with custom server components to create browser-independent web solutions and publish legacy databases to the web
“B2B”	business-to-business
“CDT”	“content distribution technology” which is a technology used for disseminating contents on-line or through connected mobile devices
“Chat Room”	a module of the Group’s CMS products that is used for real time text-based chatting on the Internet on client’s websites
“Classified Advertisement”	a module of the Group’s CMS products that is used for the management of on-line classified advertisement posted by users of the website
“CMS”	“content management solutions”, being a line of systems for management and distribution of contents over a connected network, such as the Internet
“CMS for Portal”	a version of the Group’s CMS products specially designed for portal operators
“CMS for Office”	a version of the Group’s CMS products specially designed for corporations
“database”	a generalised, integrated collection of data structured to model the natural relationship in the data
“eCommerce”	“electronic commerce” whereby commercial transactions are being conducted over the Internet
“Email Broadcasting”	a module of the Group’s CMS products that is used for broadcasting email messages from a single source to a large group of audience
“eMarketers”	“electronic marketer”, a module of the Group’s CMS products focusing on Internet surveys
“eShop”	a module of the Group’s CMS products that is used for providing a platform for eCommerce transactions
“Forum”	a module of the Group’s CMS products that is used for on-line bulletin board posting from website users
“hardware”	the electrical and mechanical devices that make up a computer system

GLOSSARY OF TECHNICAL TERMS

“homepage”	opening page of a website
“HTML”	“HyperText Markup Language”, a coding language used to make hypertext documents for use on the web. HTML resembles old-fashioned typesetting code, where a block of text is surrounded by codes that indicate how it should appear. HTML allows text to be “linked” to another file on the Internet
“HTTP”	“HyperText Transfer Protocol”, the underlying protocol used by the World Wide Web, which defines how messages are formatted and transmitted, and what actions web servers and browsers should take in response to various commands
“ICP”	Internet content provider
“Infotainment”	a recent neologism for a television programme, web site feature or other presentation that combines information and entertainment
“Internet”	a combination of computer networks that are connected to each other through which information providers can make information available to users globally
“ISP”	Internet service provider
“IT”	“information technology”
“Macromedia Flash”	a web application which displays front-ends, high-impact website user interfaces, interactive on-line advertising, and short-form to long-form animation
“MAS”	“mobile advertising solutions”, being a line of advertising products and solutions for use on the mobile platform, including but not limited to mobile phones and connected PDAs
“Membership”	a module of the Group’s CMS products that is used for management of on-line membership database.
“OAS”	“on-line advertising solutions”, being a line of advertising solution products to be used on different media
“OFTA”	Office of the Telecommunications Authority
“on-line”	being connected to the Internet or other computers
“PC(s)”	“personal computer(s)”
“PDA”	“personal digital assistant”
“platform”	a computing environment which allows the development and execution of computer applications

GLOSSARY OF TECHNICAL TERMS

“PNETS Licence”	“Public Non-Exclusive Telecommunications Service Licence” is a licence granted by OFTA for the provision of telecommunication services to members of the public in Hong Kong over the public telecommunications networks
“R&D”	research and development
“rich media contents”	contents which include one of the elements of static images, slide show, sound clip, music, animation, dynamic information and movie
“Rich media Content Management”	a module of the Group’s CMS products that is used for management of richmedia contents
“server”	a computer that provides services for users of a computer network, for example, file server, print server or database server
“software”	a system or utility or application programme expressed in a computer readable language
“SMS”	“Small Message Service”
“streaming”	a media technology which enables real-time audio video and other multimedia file transmission
“TVC”	“television broadcasted commercial”
“WAP”	“wireless application protocol”, an open and global specification that allows Internet access and other broadband services on connected mobile devices
“web” or “World Wide Web”	a worldwide network of servers that supports hypertext connections and other links using HTML and HTTP and which permits the communication of text, graphics, video, sound and other data over the Internet
“website”	a collection of web pages which are linked together
“3G”	the Third Generation mobile system
“2.5G”	a wireless communications technology halfway between the Second Generation and 3G, representing an enhancement to today’s digital networks, though it falls short of the bandwidth, applications and capacity as compared with 3G

RISK FACTORS

Prospective investors should carefully consider all of the information set out in this prospectus and, in particular, the following risks and special considerations associated with the Group before making any investment decision in relation to the Placing Shares.

RISKS RELATING TO BUSINESS AND OPERATIONS OF THE GROUP

One-off sales to a connected person

The Group entered into an agreement with 32days.com Asia, 99.9% of its issued share capital was held by Yorkmax Investments Ltd. during the period from December 2001 to April 2002 and the largest customer of the Group for the year ended 31st March, 2002 and the three months ended 30th June, 2002, to provide site management and content management services using the CMS for Portal, including continuous upgrading of new modules for the CMS for Portal during the service period as well as managing the contents for distribution using the CMS for Portal's administration modules, for a period of 10 months at HK\$100,000 per month (for a total consideration of HK\$1,000,000) since 15th September, 2001. This amount was treated as sales revenue for the CMS product line of the Group. This consideration was agreed based on the complexity of the project and the number of hours required for the completion of the project and the standard hourly rate charged by the Group against other independent customers. The whole service completed with income recognised based on services rendered on each month for the period from September 2001 to June 2002 with all balances settled in June 2002.

Although the 32days.com portal became inactive since April 2002, the Group continued to provide content management services through the use of CMS for Portal. The Group was commissioned to develop a new portal for 32days.com as well as to maintain and manage the contents on the portal using the Group's CMS for Portal until the end of the contract. A base portal which included features of sending and receiving eCards with membership management was first developed during the first two months of the services contract. While the portal was operative, the remaining eight months were used to develop and update new and existing modules, such as calendaring, lunar calendaring, scheduling, address book, personal eCards management, webmail system, character based mail card system, file download and upload management, event management system, multi-language database module, advertising management system, news system, forum system, rich media browsing module, link and directory module, on-line shopping system, payment module, etc. Each of these modules worked with the other coherently and should the project be terminated before completion of all these modules, the new features of the portal could not function properly. At the time of 32days.com became inactive in April 2002, most of the features were completed, except lunar calendaring, event management system, multi-language database module, advertising management system and payment module. 32days.com Asia did not request to terminate the service agreement as the then owner of the 32days.com portal (with details set out in the "Definitions" of this prospectus) considered that such arrangement could be more cost effective by completing the whole development and upgrading of the portal at once, which represented about 21% of the total amount of the service fee that would be required to be paid for completion.

Apart from this, the Group also sold CMS for Portal to 32days.com Asia, with a total income of HK\$390,000 in September 2001, when 32days.com Asia was not held by Yorkmax Investments Ltd.

RISK FACTORS

The Directors and the Sponsor are of the view that these transactions, which included the continuation of the CMS service contract with 32days.com Asia from April 2002 to June 2002 even 32days.com portal was inactive since April 2002, arose from the ordinary course of business of the Group and that the considerations were reasonable and agreed on normal commercial terms, which represented genuine considerations for the services provided by Art Global.

The total amount of HK\$1,000,000 received from ten monthly instalments (from September 2001 to March 2002 for the year ended 31st March, 2002 and from April 2002 to June 2002 for the three months ended 30th June, 2002) based on the above-mentioned agreement and the HK\$390,000 for the sale of CMS for Portal, represented 29% and 36% of the total turnover for the year ended 31st March, 2002 and the three months ended 30th June, 2002, respectively.

32days.com Asia was originally owned by Mr. Chan and HK Concepts Co since its incorporation date and its set up was solely for the purpose of operating the 32days.com portal to accommodate and advertise the eCard of the Group. An aggregate 999 shares in the issued share capital of 32days.com Asia were transferred to Yorkmax Investments Ltd. in December 2001 and were then transferred to Mr. Chan in April 2002.

In June 2001, HK Concepts Co agreed that the ownership of 32days.com Asia would be transferred to Mr. Chan at the same time the business transfer agreement took place. Although the sale of the on-line rich media and content distribution solution business to Mr. Chan included related intellectual property rights and cartoon characters for the eCard, the latter was retained by Mr. Chan as they were of no commercial value to the Group and these characters were owned by the Group all along until this point. Since the eCard with CDT included characters that Mr. Chan owned, an authorisation that allows the Group to publish, reprint, or excerpt the characters was signed by Mr. Chan with details set out in “Exempted connected transactions” in this prospectus. After the transfer agreement was effective on 23rd June, 2001 and was signed on 30th August, 2001, Mr. Chan focused on the business development of the Group and did not implement the transfer immediately. As Mr. N. H. Chan was interested in investing in 32days.com Asia in November 2001 to support Mr. Chan’s business in entertainment portal, Mr. Chan therefore transferred 32days.com Asia, along with the shares registered under the name of HK Concepts Co (to which he was entitled and should have been registered under his name), to Yorkmax Investments Ltd. temporarily in December 2001 until a new holding company is formed. Subsequently, Mr. N. H. Chan decided not to further invest in 32days.com Asia. As the new holding company has never been established, 32days.com Asia was subsequently transferred from Yorkmax Investments Ltd. to Mr. Chan in April 2002. As such, 32days.com Asia was part of the Group from December 2001 to April 2002.

As a result of the one-off sales arrangement with 32days.com Asia mentioned above, the amounts of HK\$1,090,000 and HK\$300,000 were included as revenue earned in the Group’s turnover and profit for the year ended 31st March, 2002 and the three months ended 30th June, 2002. According to the financial statements of 32days.com Asia from its date of incorporation up to 31st March, 2002, and for the period from 1st April, 2002 to 30th June, 2002, 32days.com Asia earned no revenue but incurred total expenses of HK\$1,098,000, and HK\$301,000 including the payment of HK\$1,090,000 and HK\$300,000 which has been recorded as income of the Group.

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As the Group does not intend to renew the above-mentioned arrangements and the agreement was completed with income recognised from September 2001 to June 2002 and settled in June 2002, the termination of this income source could adversely affect the financial position of the Group should it be unable to explore new income source from other Independent Third Parties. Moreover, the record of the sales of HK\$1,090,000 and HK\$300,000 to 32days.com Asia in the Group's turnover for the year ended 31st March, 2002 and the three months ended 30th June, 2002 may not be reflective of the Group's results in the future.

Reliance on major customers

Most of the Group's revenue was derived from the provision of OAS, MAS and CMS on a non-recurring and contract by contract basis. For the First Relevant Period, the Group had only one customer, Yesmobile (H.K.) Limited, and therefore all revenue was derived from it. For the Second and the Third Relevant Period, the Group's five largest customers and the largest customer accounted for approximately 85% and 29%, and 89% and 36% of the Group's total turnover, respectively. The largest customer for the Second and the Third Relevant Periods was 32days.com Asia. Details of outstanding on these balances as at the Latest Practicable Date are set out in "Customers" section in this prospectus.

There is no assurance that the Group will be able to introduce new products/services or to attract new customers. Should the Group be unable to develop new products/services or to attract new customers, its profitability could be adversely affected. In the event that the Group will not able to secure new customers or maintain its existing customers, its revenue and business development could also be adversely affected.

No assurance of revenue, profitability and successful future operation

The Group started its business in March 2000. Due to this limited operating history, it may be difficult to assess the Group's business and future prospects as compared to those with longer operating histories and track records.

The Group's past operating results were, and its future operating results is expected to continue to be, subject to fluctuations due to a variety of factors including competition, success in implementing its business strategy, success in development of new rich media solutions and etc. There is no assurance that the Group will be successful in meeting these challenges and addressing the risks faced by it. In addition, there is no assurance that the Group's operations will be profitable in the future.

Moreover, there is no assurance that the Group will be able to secure any project that generates revenue. Should the Group be unable to generate sufficient revenue from its business activities in the future, the results and financial position could be adversely affected.

Overweighting of turnover derived from CMS

For the First, the Second and the Third Relevant Period, the revenue derived from CMS amounted to approximately HK\$nil, HK\$2,749,000 and HK\$732,000, respectively, which represented

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approximately nil, 73% and 89% of the Group's turnover, respectively. Although the Group has no intention to focus its business solely on the turnover streamed from CMS and that the historical CMS turnover should not be reflective to the future turnover of the Group, the operation of the Group and its financial position could be adversely affected should it be unable to diversify its income source, particularly if the turnover stream from CMS is not sustainable due to any unforeseeable situation.

Track Record Period results not reflective of future results

The Group, at the beginning of its operation, spent substantial amount of time in R&D of its technologies. As a result, significant costs were incurred in these activities. In addition, the income generated throughout the Track Record Period, including the revenue derived from certain products which the Group no longer relied on (i.e. the eCard), did not take into account the results of certain products which are yet to be launched (e.g. the commercialised version of the CDMatrix). Moreover, certain expenses (e.g. Directors' emoluments) will substantially deviate from the current level once the Company is listed on GEM, principally due to some specific arrangements (e.g. service contracts with the executive Directors). As such, the results of the Group during the Track Record Period may not be reflective to the results of the Group in the future.

Directors' emoluments

The Directors' emoluments paid for each of the two years ended 31st March, 2002 and the three months ended 30th June, 2002, were HK\$250,000, HK\$623,000 and HK\$87,000, respectively. Nonetheless, each of the executive Directors has entered into a service contract or in the case of non-executive Directors and independent non-executive Directors, a letter of appointment with the Company subsequent to 30th June, 2002 and the aggregate emoluments payable to the Directors will amount to approximately HK\$3,498,000 per annum. For each of the two years ended 31st March, 2002 and the three months ended 30th June, 2002, the adjusted net loss of the Company would amount to approximately HK\$8,968,000, HK\$1,698,000 and HK\$644,000 respectively, should this level of Directors' emoluments had been taken into account. Should the Company be unable to generate sufficient revenue to cover the anticipated increase in the operating costs, e.g. the Directors' emoluments, the financial position and the results of the Group could be adversely affected.

The Group's inability to obtain adequate funding in the future

It is currently estimated that the net proceeds from the New Issue, its cash in bank or on hand as at the Latest Practicable Date together with the projected cashflow from operations will be sufficient for the Group to carry out its business plans up to the year ending 30th September, 2005. If the Group cannot attain the projected level of cashflow, it may have to raise additional funding through, among other sources, the equity and debt markets or bank financings or a combination of both. In the event that the Group raises funds through equity issues, there will be a dilution of shareholding interests of the existing Shareholders. A failure to achieve the projected level of cashflow or a failure to obtain such funding could have a material adverse effect on the operating results of the Group.

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Credit risk

As at 30th June, 2002, trade receivable after provision amounting to HK\$998,000 represented 32% and 136% of the total current assets and net current assets of the Group, respectively. The subsequent settlement of this amount up to the Latest Practicable Date was 7% (up to 31st October, 2002 was 92%). Despite the fact that the Group has a tight credit control policy, including the stringent credit terms granted to customers and the regular monitoring of debtors' aging, and has never experienced significant bad debt problems, any delay or failure to settle these receivables by its customers would have an adverse impact on the working capital position and the financial position of the Group.

Protection of proprietary technologies

The Group has proprietary patent applications, such as the i-tvServe.net advertising serving system and the i-tvc.net, but none of these technologies is currently on patent protection. Although, so far as the Directors are aware, there has not been any material infringement of intellectual property rights in any of the Group's applications, there is no assurance that such infringement will not occur in the future, in which case, the Group will have to litigate to enforce or to protect the intellectual property rights. This may incur substantial costs and could adversely affect the operating results of the Group.

As at the Latest Practicable Date, a patent application was submitted in February 2002 for registration in the United States for technologies used in i-tvc.net and i-tvServe.net advertising serving system. Particulars of this patent application are set forth under "Intellectual property rights of the Group" in Appendix IV to this prospectus. There is no assurance that any of this patent application will be registered successfully. In addition, the successful registration of these patents will not immunise the Group's intellectual property rights from infringement. Furthermore, should the Group fail to obtain registration of this patent application, the protection of these proprietary technologies will become minimal and any imitating technologies thereof could adversely affect the results and the financial position of the Group.

The Group's reliance on external R&D support

During the Track Record Period, the Group engaged CAIC for the provision of various supporting functions in the development of the new content distribution tool. Currently, the Group performs all R&D functions by its in-house team. Nonetheless, should any of these team members resign without proper replacements or should the Group be required to rely on the external R&D supports again, the operations of the Group could be adversely affected.

Competing products of i-tvc.net

Currently, there are some products in the market competing with the Group's i-tvc.net and targeting at same group of users, albeit that the Directors believe that none of them has the same functionalities as compared with the i-tvc.net. For example, Zebus Group Inc. has developed Embedded Video Ads, Pop Up Video and In Stream Video Ads to deliver rich media contents through streaming technologies from RealMedia, QuickTime and Windows Media Player. These products allow

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up to six customisable, interactive buttons that offer special values surrounding the video player. Another competing product, the Superstitial series, is developed by Unicast Communications. Based on Macromedia Flash, this product shows pre-downloaded animated and/or video advertisements 20-30 seconds long in between web pages.

As the relevant technology develops rapidly, there is no assurance that no future products will be developed to compete with the Group's existing products or to render the Group's products and services obsolete. In any of these events, the operating results of the Group could be adversely affected.

Security risks of proprietary technologies

A key factor contributing to the Group's success is its development of proprietary technologies through R&D. The Group's computer network or products may be vulnerable to unauthorised access or security breaches by hackers, former or existing employees or other third parties which may result in misappropriation or unauthorised disclosure of the Group's proprietary technologies. If this occurs, the Group's operations could be adversely affected.

The Group's potential liability for information retrieved from its portal network

Since the Group's services can be used for information downloading, there is a risk that claims may be made against the Group for defamation, negligence or infringement of intellectual property of third parties. The Group has maintained no insurance in this respect and any claim of material amount could have a material adverse impact on the Group's results and financial position.

Product liability

The applications developed or to be developed by the Group are usually critical to the operations of its customers. Should there be any defect or error in such solutions and/or platforms that causes damage to operations and/or business of the customers, the Group may have to incur additional expenditures either to rectify the defect or error or to compensate the customers for any loss that the customer may suffer.

As at the Latest Practicable Date, so far as the Directors are aware, no legal claim was raised by any of the customers of the Group in relation to any products and services provided by the Group. Nevertheless, there is no assurance that such claim will not be brought in the future. In addition, the Group has maintained no insurance to cover any liability arising from or as a result of any defect or error in its products. As such, there could be a material adverse impact on the Group's results and financial position should any product liability claims arisen in the future.

The Group's reliance on certain key management personnel

The continuous growth of the Group's business is attributable to several factors, such as its ability to deliver quality products and services, its relationship with major customers and its

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innovativeness in the development of proprietary applications. All these factors are, to a significant extent, the results of the continuous efforts made by Mr. Chan and several key management and R&D personnel of the Group. Should any of them leave the Group without proper replacement, there could be a material adverse impact on the Group's results and financial position.

RISKS RELATING TO THE INDUSTRY

Growth in the use of the Internet

The realisation of the Group's business objective on on-line rich media and content distribution solution business is dependent on the growth of the Internet usage. However, it may be inhibited for a number of reasons, such as inadequate Internet infrastructure to support increasing demands, security and authentication concerns for the transmission of confidential information, compatibility of different Internet products and limited availability of cost-effective, high-speed access to the Internet. Any of these events or concerns may have an adverse impact on the growth of Internet usage, thereby affecting the operating results of the Group.

Intense competition

Intense competition is noted in on-line rich media and content distribution solution business as the competition is accelerated by various factors such as low entry barrier and the outburst of eCommerce activities. Making the competition even more intense is the increasingly popular rich media business which is not fully explored but with significant development potentials. Any competitor can exploit the market because of an innovative idea, thereby making the market more attractive to new entrants and hence, increase the level of competition. If the Group cannot compete with the existing competitors and the new entrants, the results of the Group could be adversely affected.

Rapid technological changes

The IT industry is characterised by rapid technological changes. Existing products are frequently improved and enhanced and new industry standards are being introduced consistently. The development of new technologies and the introduction of new industry standards may render the Group's existing products and services obsolete. The Group's prospects could be adversely affected if it is unable to keep pace with the technological advances in a timely and cost-efficient manner by improving and enhancing its existing products and services or by introducing new products and services embodying the latest technologies.

Government regulation and legal uncertainties

Currently, there is limited legislation directly applicable to the Internet and the on-line business. As time passes, however, it is possible that the legislature may introduce new laws with respect to the business covering issues such as content, copyright, distribution and quality of services and products. The enactment of any new laws or regulations may affect, whether directly or indirectly, the growth of the use of the Internet which could affect the business of the Group. Moreover, the introduction of any new laws and regulations or changes to any existing laws and regulations may impose restrictions

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on the Group to operate and/or lead to an escalation of compliance costs, which could have an adverse impact on its business. If in such event the business structure of the Group cannot be modified to conform to the then applicable law or practice or its interpretation, the Group's results could be adversely affected.

RISKS RELATING TO POLITICAL AND ECONOMIC CONSIDERATIONS

Economic conditions of Hong Kong

The general level of consumption amongst consumers is very much dependent on both the economic condition and the business environment of the region in which they live, so as the level of investment of the Group's customers. The Group has been operating mainly in Hong Kong since its establishment. If the economy of Hong Kong continues to deteriorate, the overall demand for the Group's products or services is likely to fall, and hence, the results and the prospects of the Group could be adversely affected.

Currency exchange risk

Historically, revenues, expenses and liabilities of the Group were substantially denominated in HK dollars. The Directors therefore do not consider that the Group was significantly exposed to any foreign currency exchange risk. In the future, the Group may expand its operations in other markets with revenue and expenses generated in foreign currencies. Although Hong Kong dollar is currently pegged with the United States dollars, there is no assurance that such peg will not be adjusted or removed in the future. In addition, the Group may be subject to exchange rate fluctuation with respect to other currencies. The Group has not entered into agreements or purchased instruments to hedge its exchange rate risks although it may do so in the future.

Risks in geographical expansion of operations

The Group plans to expand its operations into the PRC and other certain Asian countries with the objective to enhance its revenue growth, operations and profitability. The planned expansion of the operations of the Group into other countries could expose the business of the Group to a number of risks including unexpected changes in regulatory requirements, potentially adverse tax and regulatory consequences, political instability and fluctuations in exchange rates. In addition, the planned expansion may result into significant capital expenditures by the Group which may or may not be recoverable, and may divert management's attention from other business concerns.

The development of the Internet is not very sophisticated in the PRC as compared with many other countries. In addition, the PRC government has issued and is considering imposing further restrictions on the flow of information over the Internet. There is no assurance that the PRC government will not seek to control or regulate the proposed business activities which the Group plans to conduct in the PRC. Moreover, there is no assurance that one or more of the factors discussed above will not have a material adverse effect on the Group's future PRC operations and hence, on the Group's business.

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RISKS RELATING TO THE PLACING AND INFORMATION IN THIS PROSPECTUS

Proceeds from the New Issue may not be used as described

The business plans of the Group as described under “Business objective and strategies” in the section headed “Statement of business objectives” are based on future events that are uncertain.

There is no assurance that these plans will materialise as intended and in the event that any part of these plans fails to occur, the net proceeds from the New Issue may then not be utilised as described in the section headed “Use of net proceeds from the New Issue”. The Directors may need to reallocate the net proceeds to other business plans or new projects or to hold such funds in bank accounts so long as the Directors consider the decision is in the best interest of the Shareholders as a whole.

Forward-looking statements contained in this prospectus may not be accurate

Included in this prospectus are various forward-looking statements which can be identified by the use of forward looking terminology such as “may”, “will”, “expect”, “anticipate”, “estimate”, “plan”, “continue”, “believe” and other similar words. The Group and the Directors have made forward-looking statements with respect to the following areas, among other things:

- the Group’s business objective and strategies;
- the importance, pace of change and expected growth of Asian and global OAS, MAS and CMS activities; and
- the use of proceeds from the New Issue.

There is no assurance that any of these forward-looking statements contained in this prospectus will be materialised in the future.

Minimum public float and dilution effect after the exercise of any of the options granted under the Pre-IPO Share Option Scheme

The Group has adopted the Pre-IPO Share Option Scheme under which options in aggregate of 37,241,377 Shares, representing 7.8% of issued share capital of the Company immediately following completion of the Placing and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised), were outstanding as at the Latest Practicable Date. These options are granted to the Directors and senior management of the Group in recognition of their contributions to the Group, and are exercisable at a price of HK\$0.05, representing 80% discount to the Offer Price. The details of the options granted are set out in the section headed “Options granted under Pre-IPO Share Option Scheme” in this prospectus. Among these grantees, four of them, namely Mr. Chung Yan Yee, Andrew (7,758,621 Shares), Mr. Cheung Ka Kin (4,655,172 Shares), Ms. Wong Cheung Yun (4,655,172 Shares) and Ms. Han Seung A (4,655,172 Shares), are Directors.

The full exercise of the options granted under the Pre-IPO Share Option Scheme will have a dilution effect on the existing Shareholders and the total shareholdings held by the public may fall

RISK FACTORS

below 25% for a short period of time even though the Company and the Directors have undertaken to maintain the minimum public float of 25% within three months therefrom and such options will not be exercised during the Moratorium Period. In addition, the relevant Directors and the senior management of the Group have also undertaken not to exercise their options should any of their exercise would lead to a fall in the shareholdings of the Company held by the public to be below 25%. Moreover, potential investors should be aware that, in the case that all of the options granted under the Pre-IPO Share Option Scheme is exercised by the option holders, the percentage of Shares then held by the public will reduce to 23.2%, and the Earnings per Share for the financial year ended 31st March, 2002 and the three months ended 30th June, 2002 will reduce to 0.14 HK cents and 0.003 HK cents respectively.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

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

The Placing Shares are offered solely on the basis of the information contained and the representations made in this prospectus. No person 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 Vendor, the Sponsor, the Co-Lead Managers, any of their respective directors or any other parties involved in the Placing.

UNDERWRITING

Fully underwritten

This prospectus is published solely in connection with the Placing for which South China Capital is the Sponsor to the listing of the Shares on GEM. Kingston and South China Securities are the Co-Lead Managers of the Placing. The Placing Shares are fully underwritten by the Placing Underwriters pursuant to the Underwriting Agreement. Information relating to the underwriting arrangements is set out in the section headed "Underwriting" in this prospectus.

Price payable on application

The Placing Shares are being offered at the Offer Price, together with a 1% brokerage, a 0.005% Stock Exchange trading fee and a 0.007% SFC transaction levy.

PLACING SHARES TO BE OFFERED IN HONG KONG ONLY

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

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

Each person acquiring the Placing Shares will be required to confirm, or deemed by its acquisition of the Placing Shares to have confirmed, that it is aware of the restrictions on offer 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 are not subject to laws and regulations (whether or not having the force of laws) of any place that imposes a restriction against or a requirement on them in connection with such person's application for any Placing Shares or the allotment of any Placing Shares to him.

APPLICATION FOR LISTING ON GEM

Application has been made to the GEM Listing Committee for the listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option and the exercise of the options granted under the Pre-IPO Share Option Scheme and the options that may be granted under the Share Option Scheme).

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

In compliance with Rule 11.23(1) of the GEM Listing Rules, the Company will be required to maintain a public float of at least 25% of the issued share capital of the Company at the time of the listing of the Shares on GEM and at all times thereafter.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for or purchasing the Placing Shares, or about purchasing, holding or disposing of or dealing in, or the exercise of any rights in relation to the Placing Shares, you should consult an expert or professional adviser.

None of the Company, the Vendor, the Sponsor, the Co-Lead Managers, their respective directors, agents or advisers or any other parties involved in the Placing accepts responsibility for any tax effects on, or liabilities resulting from the subscription for, or purchasing, holding or disposing of or dealings in, or the exercise of any rights in relation to Placing Shares.

REGISTRATION AND STAMP DUTY

All Placing Shares will be registered on the Company's branch register of members to be maintained by Tengis Limited in Hong Kong. The Company's principal register of members will be maintained by Bank of Butterfield International (Cayman) Ltd. in the Cayman Islands. Only Shares registered on the Company's Hong Kong branch register of members may be traded on GEM.

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty.

INFORMATION ABOUT THIS PROSPECTUS AND THE PLACING

STRUCTURE OF THE PLACING

Details of the structure of the Placing, including its conditions, are set out in the section headed “Structure and conditions of the Placing” in this prospectus.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

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

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

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM are expected to commence on or about 29th November, 2002. Shares will be traded in board lots of 8,000 each.

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Chan Tik Yuen (Chairman and Chief Executive Officer)	26C, Tower I Starcrest 9 Star Street Wan Chai Hong Kong	Chinese
Mr. Chung Yan Yee, Andrew	4th Floor, Flat G, Block 2 Illumination Terrace 7 Tai Hang Road Hong Kong	Canadian
Mr. Cheung Ka Kin	49G, Block 3 Island Resort Chai Wan Hong Kong	Chinese
<i>Non-executive Directors</i>		
Ms. Han Seung A	26C, Tower I Starcrest 9 Star Street Wan Chai Hong Kong	Korean
Ms. Wong Cheung Yun	12B, Block 3 Island Resort Chai Wan Hong Kong	Chinese
<i>Independent non-executive Directors</i>		
Mr. Carl Chang	Flat D, 12/F Ventriss Terrace 25-27 Ventriss Road Hong Kong	British
Mr. Shi Huan Zhang	Room 401, No. 3 Lane 80 Huizhan Avenue Nandan Road, Shanghai PRC	Chinese

PARTIES INVOLVED IN THE PLACING

Sponsor

South China Capital Limited
28th Floor
Bank of China Tower
No. 1 Garden Road
Central
Hong Kong

Co-Lead Managers

Kingston Securities Limited
28th Floor
One International Finance Center
1 Harbour View Street
Central
Hong Kong

South China Securities Limited
28th Floor
Bank of China Tower
1 Garden Road
Central
Hong Kong

Placing Underwriters

Kingston Securities Limited
28th Floor
One International Finance Center
1 Harbour View Street
Central
Hong Kong

South China Securities Limited
28th Floor
Bank of China Tower
1 Garden Road
Central
Hong Kong

Luen Fat Securities Company Limited
23rd Floor, Euro Trade Centre
21-23 Des Voeux Road
Central
Hong Kong

Mayfair Securities Limited
23rd Floor, Arion Commercial Centre
2-12 Queen's Road West
Hong Kong

Sun Growth Securities Limited
7th Floor, Chinachem Tower
34-37 Connaught Road
Central
Hong Kong

PARTIES INVOLVED IN THE PLACING

Legal advisers to the Company

As to Hong Kong law:

Koo and Partners
in association with
Paul, Hastings, Janofsky & Walker LLP
22nd Floor
Bank of China Tower
One Garden Road
Central
Hong Kong

As to Cayman Islands law:

Truman Bodden & Company
P.O. Box 866GT
Anderson Square Building
George Town
Grand Cayman
Cayman Islands

**Legal advisers to the Sponsor and
the Placing Underwriters**

D.S. Cheung & Co.
1910-1913 Hutchison House
10 Harcourt Road
Central
Hong Kong

Auditors and reporting accountants

Deloitte Touche Tohmatsu
26th Floor
Wing On Centre
111 Connaught Road
Central
Hong Kong

Property valuer

B.I. Appraisals Limited
Suites 5708-09
The Center
99 Queen's Road Central
Hong Kong

Vendor

City Pacific Ventures Limited
P.O. Box 3152
Road Town
Tortola
British Virgin Islands

CORPORATE INFORMATION

Registered office	Caledonian House P.O. Box 1043GT 69 Jennet Street George Town Grand Cayman Cayman Islands
Head office and principal place of business registered under Part XI of the Companies Ordinance in Hong Kong	10th Floor 99 Hennessy Road Wan Chai Hong Kong
Company website	<i>www.aglmediatech.com</i> (Information on this website does not form part of this prospectus)
Company secretary	Mr. Chung Yan Yee, Andrew (<i>Barrister</i>)
Authorised representatives (for the purpose of the GEM Listing Rules)	Mr. Chan Tik Yuen Mr. Cheung Ka Kin
Authorised representative (to accept service of process and notices under Part XI of the Companies Ordinance)	Mr. Chan Tik Yuen Mr. Cheung Ka Kin
Compliance officer	Mr. Chung Yan Yee, Andrew
Qualified accountant	Mr. Tam Chi Ming, George (<i>AHKSA</i>)
Audit Committee	Mr. Shi Huan Zhang (<i>Chairman of the audit committee</i>) Mr. Carl Chang
Principal banker	Bank of China (Hong Kong) Limited Tsuen Wan (Sin Ching Building) Branch 201-207 Castle Peak Road, Tsuen Wan New Territories

CORPORATE INFORMATION

**Principal share registrar and
transfer office**

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
68 Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

**Hong Kong branch share registrar
and transfer office**

Tengis Limited
4th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

INDUSTRY OVERVIEW

The information provided in this section is derived from various private, government publications and/or publicly available documents. This information has not been prepared or independently verified by the Company, the Directors, the Sponsor, the Co-Lead Managers, the Placing Underwriters or any of their respective advisers, or other parties involved in the Placing. The Company makes no representation as to the accuracy or completeness of this information, which may not be consistent with information compiled from other sources. Accordingly, the information contained in this section may not be accurate and should not be relied upon.

INTRODUCTION

As the Company engages in the provision of on-line rich media and content distribution solutions, the market trends and information in software industry as well as respective areas such as rich media and content distribution are crucial for assessing the industry. In addition, elements such as the growth in Internet penetration rate, the proliferation in eCommerce and the development of on-line advertising in the traditional media will also have an impact on the operating environment for the Company. Despite the recent burst in the Internet bubble, the march of traditional corporations towards the Internet era seems to be inevitable. In the following paragraphs, the future trends in software industry, rich media, content distribution solutions, Internet penetration rate, eCommerce and on-line advertising will be examined.

Software industry in Hong Kong and China

Software affects everyone and is vital to any business enterprises throughout the world. According to the Hong Kong Productivity Council (TDC Profile of Hong Kong Major Service Industries Report, September 2002), total revenue generated by independent software vendors in Hong Kong amounted to HK\$9 billion in 2000, around 20% of which were export earnings. In addition, Hong Kong's software spending in 2000 was among the highest in Asia on a per capita basis and more than 2.3 million personal computers were installed in Hong Kong. Hong Kong is also the first city to fully digitise its fixed line telecommunications networks.

IT Spending and Revenue of Independent Software Vendors in Hong Kong

	1998	1999	2000
		(HK\$ billion)	
IT Spending	14.2	16.0	17.1
Revenue of Independent Software Vendors	9.4	Information not available	9.0

Source: Software Industry Information Centre (TDC Profile of Hong Kong Major Service Industries Report, September 2002)

INDUSTRY OVERVIEW

Exports of Computer Software in Hong Kong

	1998	1999	2000	2001
		(HK\$ million)		
Total Exports	781	1,537	1,723	2,989
Domestic Exports	339	809	844	1,358
Re-exports	443	728	878	1,631

Source: *Quarterly Supplement to Statistical Digest of the Services Sector, Census and Statistics Department (TDC Profile of Hong Kong Major Service Industries Report, September 2002)*

Exports of Computer and Information Services in Hong Kong

	1999	2000
	(HK\$ million)	
Computer services	762	227
Information services	215	238

Sources: *Report on Hong Kong Trade in Services Statistics for 2000, Census and Statistics Department*

Promoting Hong Kong software development industry has been one of the major initiatives of the Government of Hong Kong since 1996. In facilitating the software development industry, the Government of Hong Kong has formulated the “Digital 21 — Information Technology Strategy”. The Government also set up an Applied Science and Technology Research Institute and an Innovation and Technology Fund with an injection of HK\$5 billion. Moreover, a world-class Cyberport, a hi-tech multimedia hub costing HK\$13 billion, will be developed with privation participation.

Software development related to the Internet and e/m-commerce would be the key areas of growth in the coming years. Equipped with a world-class optical fibre communications network, Hong Kong offers a favourable environment for the development of software relating to web-based application, intranet solution, multimedia, EDI, e-commerce, and video-on-demand. Open source software applications are receiving more and more market attention.

Although the small and medium-sized enterprises (SMEs) account for 90% of the total number of local firms, most of them are still in the beginning stage of computerisation. As Hong Kong enters into the Information Age, the SME market will witness a rising need of software to re-engineer their business process and enhance their productivity.

According to estimates from the Centre of Computer and Microelectronics Industry Development (CCID) of the Ministry of Information Industry (MII), China’s IT market was valued at US\$30 billion in 2001, 20% higher than in 2000. Hardware products accounted for more than 80% of the IT market and the rest was software and IT services. According to the 10th Five-Year Plan, the Chinese

INDUSTRY OVERVIEW

government will invest RMB500 billion in the IT sector. It is hoped that the contribution of the IT sector to GDP will reach 7% in 2005. The increasing computerisation in both the private and public sectors makes China a market with huge potential for Hong Kong software development companies.

Hong Kong software development companies can tap into the mainland market either through setting up a branch office, joint venture or acting as mediator between international IT firms and the mainland counterparts. According to the HKPC, 31% of the independent software vendors in the survey already have a branch office in the mainland, compared to 22% in 1997 and 9% in 1994.

In most of the cases, the mainland counterpart usually provides research and development, programming and system support. Hong Kong companies usually concentrate on designing software applications, defining operation procedures, marketing as well as technology transfer. Through a joint-venture arrangement, Hong Kong companies can develop localised products and build up their distribution channel in the Chinese Mainland. While major international computer companies have set up their offices in the Chinese Mainland to market their products, many of them are co-operating with Hong Kong companies to provide software and service support.

Rich Media

Rich media is defined as the use (or combination) of video, voice, data, and other technologies, such as animation over IP networks, to create an otherwise unattainable user experience. Rich media takes advantage of the Internet's accessibility, interactivity, and data orientation to deliver the communicative power of video or animation. It adds the dimensions of context and personalisation to provide relevance that cannot be matched by other communications or broadcast media. For this reason, FAC/Equities expected that rich media will significantly add to the user experience and, therefore, will be the Internet's next "killer app."

Rich Media Market Trend

According to a research report by FAC/Equities in January 2001, the world rich media market is estimated to reach US\$34 billion by 2004 (with a compounded annual growth rate of 53%), with e-commerce being the major driver for rich media use.

Rich Media will become more significant as a supporting technology not only in certain revenue generating application such as education and training, web marketing and concert broadcasting but also in certain cost-saving application such as collaboration management and customer interaction centers and will be used by enterprises to attract prospective customers as well as retain and further penetrate existing accounts. Rich media will be deployed to improve the effectiveness of online advertising, Web marketing, sales, customer interaction centers, channel/partner management, collaboration, and training. FAC/Equities also anticipated that rich media technologies will be used to enhance online service and self-help experiences for users.

Content Management Solutions (“CMS”)

A CMS is a user-friendly tool that enables both centralised technical and de-centralised non technical staff to create, edit, manage and finally publish a variety of web contents, such as text, graphics, video etc., without any knowledge of HTML or web development software under a centralised set of rules, process and workflows that ensure a coherent, validated website appearance. Common CMS use a Web-based interface to interact with the back end of the site to perform changes to the site’s content.

The demand for CMS is expected to grow substantially as the Yankee Group in April 2001 predicted that the sales of CMS will total US\$3 billion by 2004, up from US\$900 million in sales during 2000. This shows a projected compounded annual growth rate of 35%. In addition, IDC has made a forecast in its March 2002 report that the CMS business will grow at a 44% clip over the next few years, reaching US\$24.4 billion in 2006.

Content Distribution Technologies (“CDT”)

Content distribution technologies work by moving popular or valuable content out to the “edges” of the Internet, near to the consumers, typically by leveraging Internet caching systems, and then by providing some means of directing requests for content to the optimal cache. Because of the relative cost of data communications and data storage technologies, replicating content near points of consumption can diminish the cost of streaming media by up to a factor of 100. Content providers that use CDT services offer a better product and at a much lower cost. The subscriber ISPs that host these content caches provide improved service to their subscribers.

According to the 2000 Content Delivery & Distribution Report prepared by the Internet Research Group, the market for CDT products and services will reach US\$6 billion by 2004.

The Internet Market

The Internet is a global network of interconnected, separately administered public and private computer networks that enables millions of people worldwide to communicate, access and share information, enjoy entertainment and conduct business remotely and electronically. Nowadays, the use of Internet has become a part of our life. According to an IDC research (The Internet Market in Asia Pacific-excluding Japan: 1997-2004, November 1999), the Internet users worldwide will increase from 399.7 million in 2000 to around 976.7 million in 2005, representing an annual compound growth rate of 19.6%.

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The IDC report aforementioned forecasts that the number of Internet users in the Asia-Pacific region (excluding Japan) will increase from 46.2 million to 95.1 million during the period from 2000 to 2004, reflecting a compound annual growth rate of 19.8%.

According to the IDC report aforementioned, the number of Internet users in Hong Kong is expected to increase from approximately 1.33 million at the end of 2000 to approximately 2.6 million by the end of 2004, a compound annual growth rate of 18.2%.

Hong Kong is relatively technologically advanced as it is one of the first cities in the world to have a fully digitised telecommunications network. Currently, Hong Kong is still developing its broadband Internet access capability to meet the expected demand. Given China has recently joined the WTO and with the Hong Kong government's encouragement in conducting business over the Internet, it is envisioned by the IDC report that eCommerce revenue generated by users in Hong Kong will increase from US\$236.2 million as at the end of 2000 to US\$3.34 billion by the end of 2004. An overall Internet growth is expected to be enhanced by the government driven "CyberPort" initiative. This project aims not only to create a strategic cluster of leading IT companies and a critical mass of professional talents in Hong Kong, but also to build incubation facilities to consolidate Hong Kong as a technology/Internet hub in the Asian region.

eCommerce

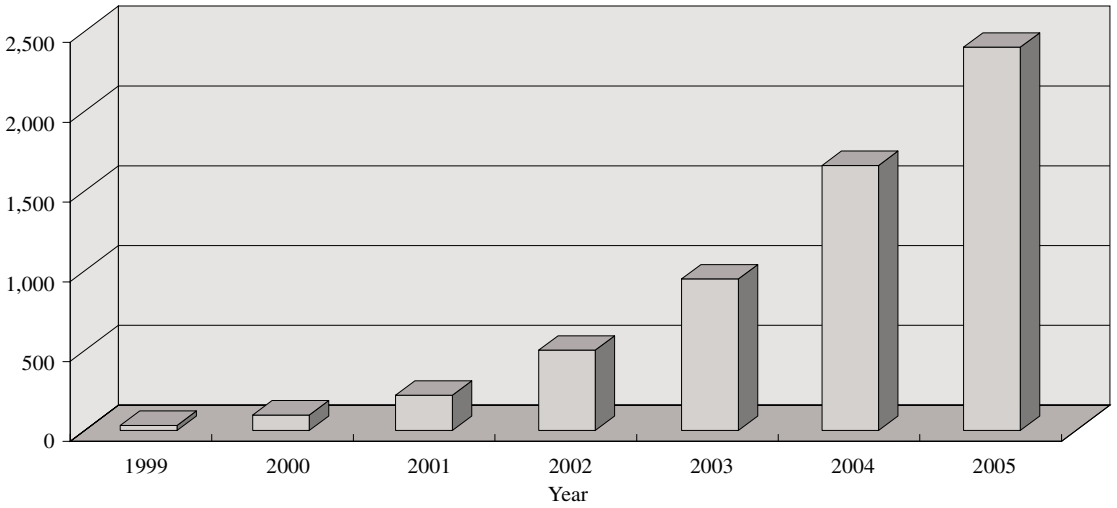
eCommerce is one of the many products catalysed by the success of the Internet. When a company conducts business electronically, it can practically do business anywhere anytime in the world. eCommerce differs from traditional commerce in the way information is exchanged and processed. Rather than by relying on physical contact or the use of telephone or mail system, information is conveyed via a communication network, a computer system or another electronic media in eCommerce.

Comparing to their counterparts in the western world, the corporations in Asia Pacific are at the earliest stage to exploit the potentials of eCommerce. Currently, the region as a whole only account for a small fraction of the total eCommerce revenues on a worldwide basis. Nonetheless, this situation is expected to change in the near future. The most obvious revolution that eCommerce has brought to the businesses in Asia Pacific is its ability to shorten supply chains and to allow small and medium enterprises to find new buyers and boost productivity. By reaping these benefits, eCommerce in Asia Pacific region will boost from US\$97 billion in 2000 to US\$2,400 billion in 2005 according to the aforementioned e-commerce study by GartnerG2, an annual compound growth rate of 89%, and by that time, Asia will become the second largest region in eCommerce revenues following North America with 28% worldwide share.

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Asia Pacific B2B E-commerce performance outlook (In Billion US Dollar)

In Billion US Dollar



Source: GartnerG2, May 2001

According to the research from GartnerG2, the first wave of Asia Pacific eCommerce was driven by overseas buyers pressuring their suppliers to comply with their electronic procurement initiatives. However, the next wave will be much different as it will be driven by private investment and by supplier marketplaces serving the chemical, steel, transportation and process manufacturing, hoping to aggregate demand cut cycle times.

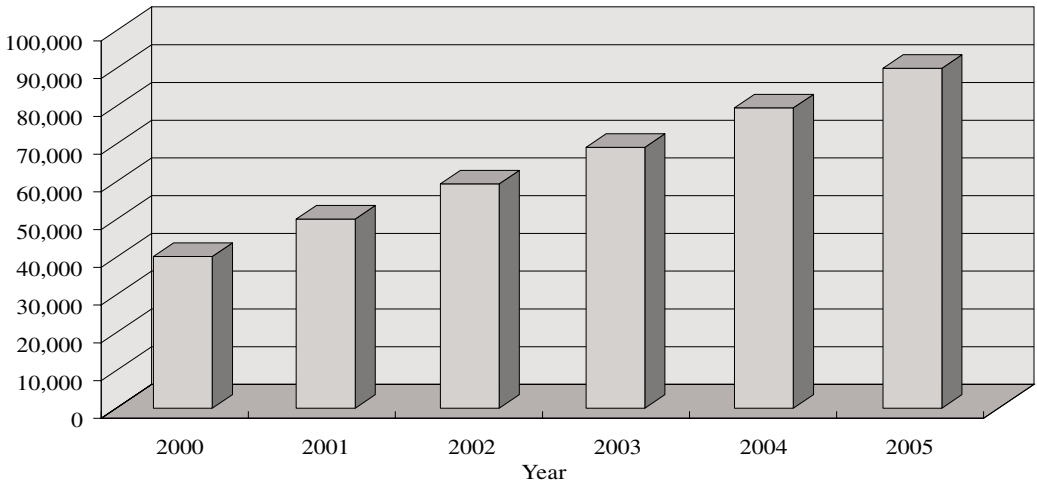
On-line Advertising

In the past few years, on-line advertising has gradually proclaimed its importance among other traditional advertising media as this trend is reflected in the United States. According to GartnerG2, on-line advertising revenue now accounts for 3% of the total advertising revenue in United States and this share of percentage is expected to grow in the future. Nonetheless, the far more compelling attestation of potentials in on-line advertising is its future market size. Based on the Global Entertainment and Media Outlook issued by the PricewaterhouseCoopers (Second Edition, May 2001), the global on-line advertising and access spending will grow from US\$50,109 million in the year 2001 to about US\$90,078 million in year 2005 at an annual compound growth rate of 17.5%.

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Global Outlook for Internet Advertising and Access Spending (In Million US Dollar)

In Million US Dollar



Source: Global Entertainment and Media Outlook: 2001-2005, PricewaterhouseCoopers (Second Edition, May 2001)

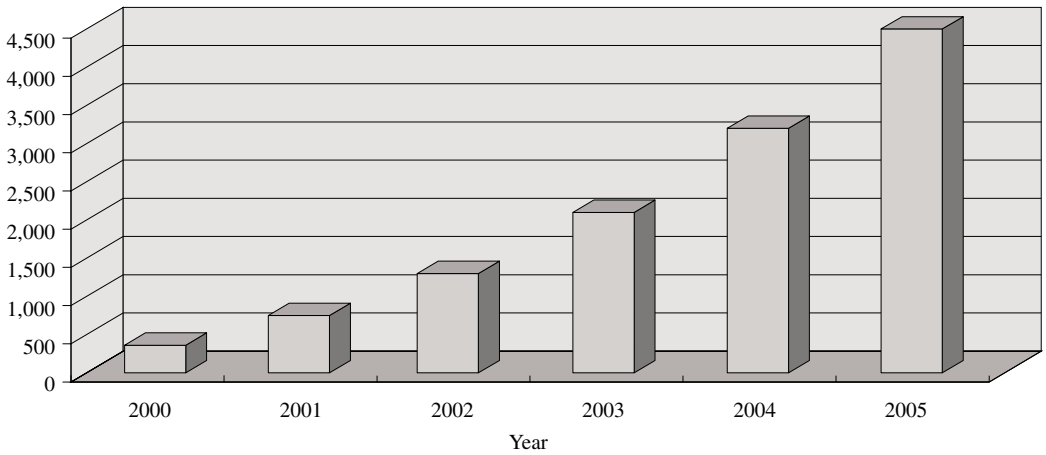
Similar to situations of Internet penetration and eCommerce, Asia Pacific region was perceived as a lag behind in the move towards on-line advertising. Many traditional companies in Asia are still skeptical about the Internet economy and are shunning on-line advertising. Based on findings from research group IDC, on-line advertising in Asia Pacific (excluding Japan) accounted for a little more than 0.5% of the total advertising revenue in the region during 2000, as the majority of advertisements continued to go into traditional media such as TV, radio and print.

Despite current negative market sentiment, IDC and many others remain sanguine about the potential of online advertising. While online advertising spending by dot.coms will decrease, more traditional companies will fill the gap. According to the Global Entertainment and Media Outlook, on-line advertising spending is predicted to grow from US\$750 million in year 2001 to US\$4,500 million in year 2005, a 65.7% annual compound growth rate.

INDUSTRY OVERVIEW

Asia Pacific Outlook for Internet Advertising (In Million US Dollar)

In Million US Dollar



Source: Global Entertainment and Media Outlook: 2001-2005, PricewaterhouseCoopers (Second Edition, May 2001)

The ratification of the PRC's entry into the World Trade Organisation is one the reasons behind the surge in on-line advertising in Asia Pacific. The open up of this enormous market will not only change the regulatory landscape and invite competition from global companies but also help to ease the restrictions on international investment in the Internet industry. Based on the 2001 annual report released by WiseCast Media Inc, the on-line advertising revenue in the PRC totaled RMB420 million in 2000 and is expected to grow to RMB720 million in 2003, a 19.7% annual compound growth rate.

REGULATIONS

Telecommunication regulations

Hong Kong

There are no specific laws in Hong Kong which require a system solutions provider or an ASP to obtain a licence. Nonetheless, the Telecommunications Ordinance (Chapter 106 of the Laws of Hong Kong) (the "Telecommunications Ordinance") does require any person who establishes or maintains any means of telecommunications to obtain a licence. In addition, Internet company which provides services involving the conveyance of "third party" messages such as electronic data exchange or e-mail services to the public would require to obtain a PNETS licence from the OFTA.

OFTA's primary responsibility is to regulate telecommunication industry in Hong Kong and to ensure that diversified telecommunication services are available to the public at reasonable costs. OFTA devises and implements relevant policies relating to the telecommunications services in Hong Kong from time to time and issues licences to companies which provide such services. OFTA is also responsible for the enforcement of the Telecommunications Ordinance and the subsidiary legislation made under it. Hence, OFTA is empowered to monitor and ensure each licensee's compliance of all requirements imposed by relevant legislation or other regulations issued by OFTA.

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A PNETS licence is usually valid for a period of 12 months and is renewable on an annual basis, upon payment of the prescribed fee, at the discretion of OFTA. As set out in the Telecommunications Ordinance, a PNETS licence may be cancelled or withdrawn by OFTA or be suspended for a period not exceeding 12 months in the event of any contravention by the licence holder of the Telecommunications Ordinance or of any conditions to which the PNETS licence is subject to, or by the Chief Executive of Hong Kong at any time in the preservation of public interest. If a PNETS licence is revoked for any reason, such licence holder will no longer be able to provide its telecommunication services in Hong Kong. The Group has not applied for a PNETS license as it has never engaged in operations that involve the conveyance of “third party” messages such as electronic data exchange or e-mail services. Nonetheless, a PNETS license will be applied should the Company be engaged in a business that requires a PNETS license in the future.

Other legislation

The Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the “**Personal Data Ordinance**”) applies to “data users” in Hong Kong. Data user, in relation to personal data, means a person who, either alone or jointly or in common with other persons, controls the collection, holding processing or use of the data. In addition, the Personal Data Ordinance may apply to a company depending on how “clicktrails” information (i.e. information regarding an Internet user’s pattern of Internet use) is used.

In relation to “clicktrails” information, the Privacy Commissioner has indicated that customer site-to-site activity stored on a server’s log is regarded as personal data if such information can be used to relate to an individual customer. Analysis of clicktrails information allows the development of a profile of the user’s interests which can be sold or transmitted to any third parties for direct marketing purposes. The Privacy Commissioner has stated that a company should not perform such analysis if there is no authorisation of such usage.

Under the Control of Obscene and Indecent Articles Ordinance (Chapter 390 of the Laws of Hong Kong), any person who publishes, possesses for the purpose of publication or imports for the purpose of publication any obscene article, whether or not the person knows that it is an obscene article, commits an offence and is liable for a fine of up to HK\$1 million and imprisonment for up to three years. It is also an offence to publish any indecent article to a person who is a juvenile, whether it is known that it is an indecent article or that such person is a juvenile. Such an offence will be entitled to a fine of up to HK\$400,000 and imprisonment for up to 12 months. Any subsequent conviction will be penalised for up to HK\$800,000 and imprisoned for up to 12 months. Presently, it is uncertain whether a portal operators in Hong Kong such as the Company would be liable under such Ordinance for displaying or distributing obscene or indecent materials through their portal. The Group has never published any of this kind of materials and will not do so in the future.

INDUSTRY OVERVIEW

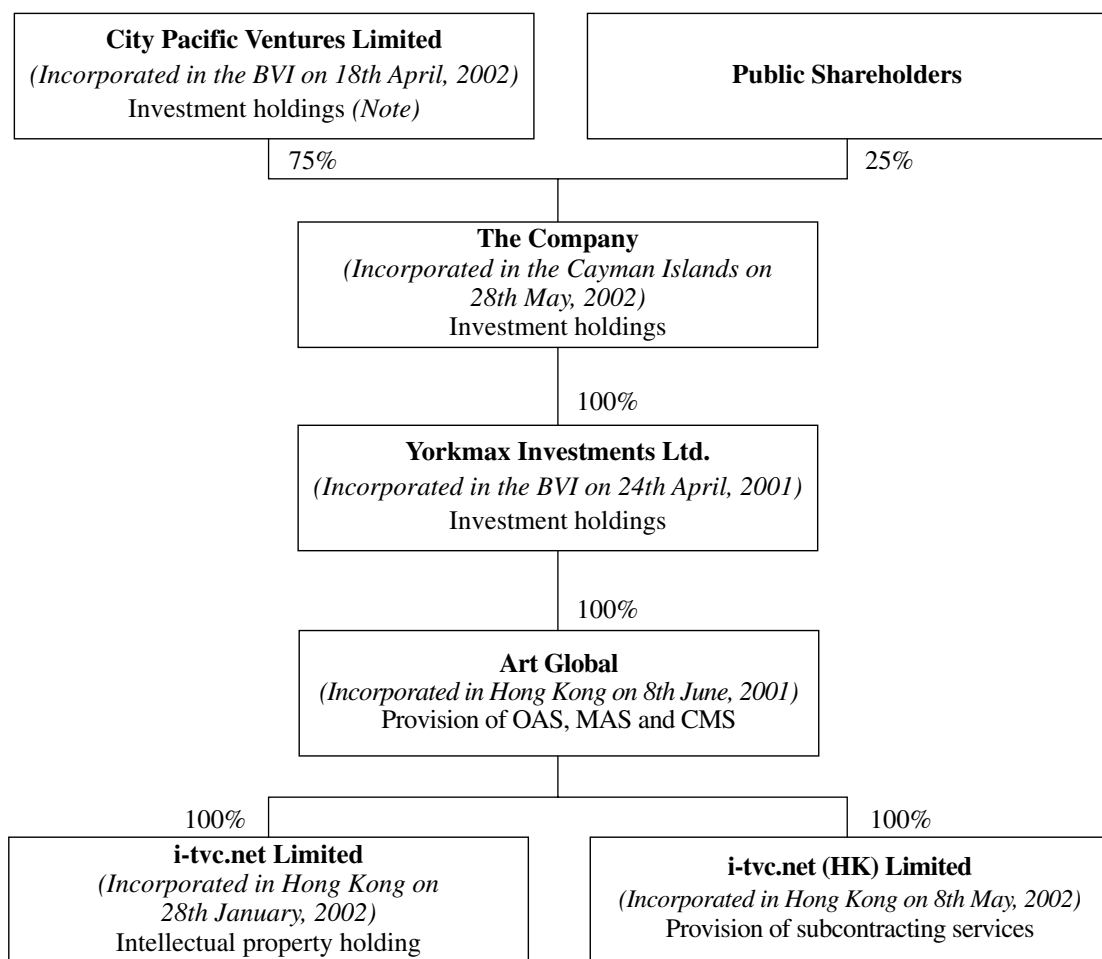
The Copyright Ordinance (Chapter 528 of the Laws of Hong Kong) provides protection for recognised categories of literary, dramatic, musical and artistic works, as well as films, television broadcasts and cable diffusion, and works made available to the public on the Internet. A copyright owner can take legal action against any person who infringes copyright in respect of a work. The owner of a copyright generally has the exclusive right to copy a work and to distribute it to the public.

Copyright may subsist in materials and information supplied by an ICP or included in the pages relating to trading on the Internet. An ICP may produce and disseminate the information or content it displays or enter into agreements with the content providers for the provision of those content such that there would be no violation of copyright. An ICP's website may also include hypertext links to third party websites. A third party name, logo or other graphic representation, statement, phrase or heading, which may be used as a hypertext link, may also be protected by copyright.

CORPORATE STRUCTURE

In preparation for and in anticipation of the listing of the Shares on GEM, the companies comprising the Group underwent the Reorganisation. Details of the Reorganisation are set forth under “Reorganisation” in Appendix IV to this prospectus.

The following diagram illustrates the corporate structure of the Group immediately following completion of the Reorganisation and the Placing and the Capitalisation Issue (without taking into account of the Shares that may fall to be issued pursuant to the exercise of the Over-allotment Option and any of the options granted under the Pre-IPO Share Option Scheme and the options that may be granted under the Share Option Scheme):



Note: City Pacific Ventures Limited is wholly-owned by Joy Ventures as trustee of The WCY Unit Trust, all but one units of which are beneficially owned by The CNH Trust. The remaining one unit of The WCY Unit Trust is beneficially owned by Ms. Wong Cheung Yun (the mother of Mr. Chan). HSBC International Trustee Limited and Ms. Wong Cheung Yun are the trustee and the protector of The CNH Trust, respectively. The discretionary objects of The CNH Trust during the Moratorium Period are Mr. Chan (as to 60% of the trust assets) and Mr. N. H. Chan (as to 40% of the trust assets) and thereafter are the family members of Mr. Chan and Mr. N. H. Chan including, but not limited to themselves, Ms. Han Seung A (the spouse of Mr. Chan), Ms. Wong Cheung Yun and Ms. Chan Shiu Shu (the daughter of Mr. Chan). Joy Ventures is wholly-owned by The CNH Trust. In accordance with the terms of the trust deed of The CNH Trust, Mr. Chan, as the settlor of The CNH Trust, has conferred the widest

possible discretionary power onto HSBC International Trustee Limited as to the administration of the trust fund. Hence, HSBC International Trustee Limited has a complete and unfettered discretion as to whether or not to make any distribution, the amount of the distribution, which beneficiaries will receive the distribution, the investment of the trust fund and early termination of the trust period, subject to the restriction that no distribution of the trust fund shall be made under The CNH Trust during the Moratorium Period. To this end, HSBC International Trustee Limited will not be influenced by Mr. Chan to cause any disposal of the Shares. In accordance with the terms of the trust deed, the protector, Ms. Wong Cheung Yun, has the power to remove HSBC International Trustee Limited as the trustee of The CNH Trust and appoint a replacement. As such, Ms. Wong Cheung Yun will exercise this removal power if it is found that HSBC International Trustee Limited has any serious mismanagement or misconduct as to the trust fund.

HISTORY AND DEVELOPMENT

The history of the Group may be traced back to the business carried on by HK Concepts Co, a wholly-owned subsidiary of HK Concepts International which was co-founded by Mr. Chan, Mr. N. H. Chan and three other shareholders, all being ex-directors of Capital Automation Holdings Limited (“CAHL”), a listed company on the Main Board, with business activities in automation of textile design and manufacturing. Mr. N. H. Chan is the founder of CAHL which he served as chairman until 2000.

Among the other three shareholders of HK Concepts International, one was involved in the industrial automation business of HK Concepts International, whilst the other two were never involved in any of the businesses of both HK Concepts International and HK Concepts Co. All of these shareholders held senior positions in their own fields which include industry automation, pharmacy and banking.

The principal business of HK Concepts International includes industrial automation (through itself) and the provision of on-line rich media and content distribution solutions (through HK Concepts Co), an area which Mr. Chan considered with significant market potential and with such idea initially concurred by the other four shareholders. During the time when both Mr. Chan and Mr. N. H. Chan were the shareholders and directors of HK Concepts International, they together had a substantial control (holding respectively 32% and 31% shareholdings) on HK Concepts International and Mr. Chan was solely in charge of the on-line rich media and content distribution business, being the only business operation of HK Concepts Co, in which he successfully launched the eCard operation and entered into agreements with a portal owned by a listed company in Hong Kong and sina.com.tw, both are Independent Third Parties.

As time passed, all the shareholders of HK Concepts International, except Mr. Chan and Mr. N. H. Chan, wanted to focus the business of both HK Concepts International and HK Concepts Co on industrial automation as they had changed their investment and business interests, though Mr. N. H. Chan still wanted to maintain his shareholdings in HK Concepts International.

In view of the fact that HK Concepts International would like to retain HK Concepts Co as a vehicle to take up the business of industrial automation, Mr. Chan then acquired the on-line rich media and content distribution solution business, together with the related intellectual property rights, such as business names, domain names and their corresponding rights of usage (details of which are set out in the table towards the end of this sub-section) from HK Concepts International in his personal

capacity at a consideration of US\$3,600, an amount representing a bona fide agreement between the parties at the material times and agreed by all shareholders of HK Concepts International. Mr. Chan subsequently transferred the same to Art Global. Apart from the payment of the said US\$3,600, Mr. Chan was also solely responsible for HK\$180,000 liabilities pursuant to the above-mentioned transfer, being the estimated amount of provision for severance and compensation (based on the salaries and allowance paid in August and September 2001) for the retained staff (those who subsequently joined the Group as contractors) should the termination of this staff become necessary for commercial reason. Nonetheless, this obligation has not arisen. Mr. Chan also disposed of his shareholdings in HK Concepts International to Mr. N. H. Chan in June 2001. Mr. Chan settled the US\$3,600 through his bank account in the United States. This account was subsequently closed as all members of Mr. Chan's family moved back to Hong Kong from the United States in 2001. As Mr. Chan had left behind all payment records in the United States, the Directors therefore cannot procure the production of any bank deposit slip or a copy of the issued cheque as supporting documentation for the transaction. Nonetheless, the Directors believe that the acknowledgment of receipt issued by HK Concepts International on 30th August, 2001 is sufficient supporting documentation for proving the transaction.

At the time of the above-mentioned transfer, HK Concepts Co suffered a loss of HK\$6.2 million for the year ended 31st March, 2001. All the then shareholders of HK Concepts International, save for Mr. Chan and Mr. N. H. Chan, decided to discontinue the on-line rich media and content distribution solution business and to sell it at a low price to Mr. Chan.

Mr. Chan, after acquiring the on-line rich media and content distribution business in his personal capacity, decided to carry out the business through a corporate vehicle, which ensures limited liabilities on his part. As a result, he injected the business into Art Global, on the same day a company which was at the relevant times owned indirectly as to 60% by Mr. Chan and 40% by Mr. N. H. Chan and has become, pursuant to the reorganisation undertaken, an indirect wholly-owned subsidiary of the Company. As the transfer of the business into a corporate vehicle was purely a business decision, with all assets owned by Mr. Chan himself, no consideration or written agreement was therefore involved. In addition, the reason that Mr. Chan acquired the on-line rich media and content distribution business in his own capacity in the first place was that not all assets (i.e. a car and two HK Concepts Co related domain names) were transferred to Art Global. At that time, Art Global was a newly established company and the other three shareholders of HK Concepts International preferred to enter into the agreement with Mr. Chan personally, taking into consideration the possible liabilities consequential to the transfer.

After the above-mentioned transfer, Mr. Chan started to develop new products and technologies.

All along the period since the incorporation of HK Concepts International and HK Concepts Co up till Mr. Chan's resignation as director to both companies on 30th August, 2001, there was no other change in directorship in both companies. Mr. Chan disposed of his 3,167 shares in the issued share capital of HK Concepts International to Mr. N. H. Chan on 30th August, 2001 and Mr. N. H. Chan disposed of his 1,584 shares of HK Concepts International to one of the other three shareholders on

3rd September, 2001. These two transactions represented the only change in shareholdings of HK Concepts International since the date of its incorporation. Mr. N. H. Chan was still a shareholder of HK Concepts International as at the Latest Practicable Date.

On 15th September, 2001, the Group entered into an agreement with 32days.com Asia pursuant to which Art Global would provide site management and content management services using the CMS for Portal, including continuous upgrading of new modules for the CMS for Portal during the service period as well as managing the contents for distribution using the CMS for Portal's administration modules, for a period of 10 months at HK\$100,000 per month (total consideration: HK\$1,000,000) starting from 15th September, 2001, being treated as sales revenue for the CMS product line of the Group. This consideration was agreed based on the complexity of the project and the number of hours required for the completion of the project and the standard hourly rate charged by the Group against other independent customers. The Directors and the Sponsor are of the view that these transactions, which included the continuation of the CMS service contract with 32days.com Asia from April 2002 to June 2002 even 32days.com portal was inactive since April 2002, arose from the ordinary course of business of the Group and that the considerations were reasonable and agreed on normal commercial terms, which represented genuine considerations for the services provided by the Group. The service completed with income recognised based on services rendered on each month for the period from September 2001 to June 2002 and with all balances settled in June 2002. Although the 32days.com portal became inactive since April 2002, the Group continued to provide content management services through the use of CMS for Portal. The Group was commissioned to develop a new portal for 32days.com as well as to maintain and manage the contents on the portal using the Group's CMS for Portal until the end of the contract. A base portal which included features of sending and receiving eCards with membership management was first developed during the first two months of the services contract. While the portal was operative, the remaining eight months were used to develop and update new and existing modules, such as calendaring, lunar calendaring, scheduling, address book, personal eCards management, webmail system, character based mail card system, file download and upload management, event management system, multi-language database module, advertising management system, news system, forum system, rich media browsing module, link and directory module, on-line shopping system, payment module, etc. Each of these modules worked with the other coherently and should the project be terminated before completion of all these modules, the new features of the portal could not function properly. At the time of 32days.com became inactive in April 2002, most of the features were completed, except lunar calendaring, event management system, multi-language database module, advertising management system and payment module. 32days.com Asia did not request to terminate the service agreement as the then owner of the 32days.com portal (with details set out in the "Definitions" of this prospectus) considered that such arrangement could be more cost effective by completing the whole development and upgrading of the portal at once, which represented about 21% of the total amount of the service fee that would be required to be paid for completion.

Apart from the above transaction, the Group also sold CMS for Portal to 32days.com Asia, with a total income of HK\$390,000 in September 2001, when 32days.com Asia was not held by Yorkmax Investments Ltd. The Directors confirm that this one-off transaction was based on normal commercial terms negotiated between the parties at the same rate applied to other Independent Third Parties. The

Sponsor, based on its understanding, is also of the view that the transaction arose from the ordinary course of business of the Group and that the considerations were reasonable and agreed on normal commercial terms, which represented genuine considerations for the services provided by Art Global.

The Group also sold this product to other independent third parties. For example, the sale in the fourth quarter of 2001 to a garment manufacturer in the PRC amounted to HK\$857,000, as the CMS for portal sold was more sophisticated and with more customised modules.

32days.com Asia was originally owned by Mr. Chan and HK Concepts Co since its incorporation date and its set up was solely for the purpose of operating the 32days.com portal to accommodate and advertise the eCard of the Group. In June 2001, HK Concepts Co agreed that the ownership of 32days.com Asia would be transferred to Mr. Chan at the same time the business transfer agreement took place. Nonetheless, after the transfer agreement was effective on 23rd June, 2001 and was signed on 30th August, 2001, Mr. Chan focused on the business development of the Group and did not implement the transfer immediately. As Mr. N. H. Chan was interested in investing in 32days.com Asia in November 2001 to support Mr. Chan's business in entertainment portal, Mr. Chan therefore transferred 32days.com Asia, along with the shares registered under the name of HK Concepts Co (to which he was entitled and should have been registered under his name), to Yorkmax Investments Ltd., at a consideration of HK\$999, temporarily in December 2001 until a new holding company is formed. Subsequently, Mr. N. H. Chan decided not to further invest in 32days.com Asia. As the new holding company has never been established, 32days.com Asia was subsequently transferred from Yorkmax Investments Ltd. to Mr. Chan at a consideration of HK\$999 in April 2002. As such, 32days.com Asia was part of the Group from December 2001 to April 2002.

As a result of the one-off sales arrangement with 32days.com Asia mentioned above, the total amount of HK\$1,090,000 and HK\$300,000 have been included as revenue earned in the Group's turnover and profit for the year ended 31st March, 2002 and the three months ended 30th June, 2002. According to the financial statements of 32days.com Asia from its date of incorporation up to 31st March, 2002, and for the period from 1st April, 2002 to 30th June, 2002, 32days.com Asia earned no revenue but incurred total expenses of HK\$1,098,000 and HK\$301,000, including payment of HK\$1,090,000 and HK\$300,000 which has been recorded as income of the Group.

During the First Track Record Period, the Group had contracted a Korean character and graphic design company to furnish 12 electronic greeting card graphical designs and 10 cartoon characters for use in the eCards in March 2000. The finished eCards were then incorporated with the Group's Content Distribution Technology (CDT) and used in 32days.com portal, which was transferred to 32days.com Asia in October 2000.

When Mr. Chan purchased the business from HK Concepts Co in June 2001, the eCard with CDT was transferred to Art Global on the same day, while the characters were retained by Mr. Chan as they were of no commercial value to the Group and these characters were owned by the Group all along until this point. Since the eCard with CDT included characters that Mr. Chan owned, an authorisation that allows the Group to publish, reprint, or excerpt the characters contained in 32days.com for a

period of three years commencing from 1st August, 2001, was signed by Mr. Chan to allow the Group in using such characters. Although the Group does not use the characters anymore, such authorisation would enable the Group to use the past pure graphical design eCard with those characters legitimately. The pure graphic design part of the eCard was transferred to 32days.com Asia in April 2002.

At the beginning of the Group's business, there were only three employees apart from Mr. Chan and none of them held any senior managerial position in the Group's project development. In fact, one of them was hired to handle office administrative works and the other two for programming works. As time passed, all of them left the Group on their own accord, but their departure did not result in significant adverse impact on the Group's operation.

Mr. Chan, with his experience and knowledge in the IT and the IT related business, has developed several proprietary applications for OAS, MAS and CMS. Details of these applications are set out under "Major products and services" in the section headed "Business" in this prospectus.

The following table contains those intellectual properties transferred from HK Concept Co to Art Global:

Intellectual property rights	Usage by Art Global
Source codes, business marks and tradenames, patents: (Clause 3i in the transfer agreement)	Source codes: i) Copyright and source codes of CDMatrix, i-tvc.net, eCards, WAP Cards, CMS for Office, and CMS for Portal. ii) All pre-production materials of all of the above products and i-tvServe.net. Business marks and trade names: all names of the above products and website sites. Patents: Nothing applied but included for protection for future patent applications. All of the above were used in Art Global.
After Market Software: (Clause 3iv in the transfer agreement)	Programme licenses include Windows operating systems, Macromedia Director, Macromedia Flash, Macromedia Generator, Macromedia Dream Weaver, Adobe Photoshop, Adobe Illustrator, Microsoft Office, Computer Associates ServiceIT, Norton Antivirus, Reality Studio, Canon Photo Gold, etc. All of the above were used in Art Global.
Domain names: (Clause 3v in the transfer agreement)	designteam1.com — Using caiconcepts.com — Not Used
Business names: (Clause 3xi in the transfer agreement)	32days.com — Used in the Group for the brand name for eCards until April 2002 CAI Concepts — Not used as of the LPD Design Team One — Used as brand name for the design division of the Group's R&D Unit

STATEMENT OF ACTIVE BUSINESS PURSUITS

The following is the statement of active business pursuits of the Group which is divided into two principal stages in terms of pursuing the business actively:

- (a) through HK Concepts Co for the period from March 2000 to June 2001; and
- (b) by the Group itself for the period from July 2001 up to the Latest Practicable Date.

History and development in March 2000**Background**

The Group's business objective is to apply CDT to develop tools or solutions for rich media and content distribution. In its first year of incorporation, the Group focused on R&D in the technologies for distributing rich media advertising and animated contents and had achieved the followings: a) completed programming and encoding of the first CDT to be used in the eCards; b) engaged a character and graphic design company to make plain graphic designs for the eCards; c) started the diligent research, the feasibility studies and the pre-production steps for the CDMatrix; and d) Mr. Chan launched 32days.com portal to accommodate and advertise the eCard (with CDT) developed by the Group.

Mr. Chan, with his working experience and expertise in the IT and the IT related businesses, believed that an efficient and sophisticated technology that could distribute rich media contents effectively, would be the key to portal operation and would give rise to additional business opportunities.

In January 2000, Mr. Chan originated the idea of the CDT for on-line rich media and content distribution and this business was later carried out by HK Concepts Co. With his training in computer technology at the university, Mr. Chan developed the core algorithm of the CDT and actually did the pre-production and programme encoding himself for the Group's first product, the eCards.

Defining the Group's product pre-production guideline

Mr. Chan found that a well planned process is the key to an efficient R&D project. Before the Group went onto the programming of its computer solution products, Mr. Chan defined and established a guideline for all of the Group's future pre-production process (a process of the planning and testing the algorithm before the actual programming for the relevant computer software). The guideline for the pre-production process was set to include four stages, namely, tools selection, data structure, system architecture and system analysis.

Tools selection process included testing, planning and determination of which operating systems, which programming languages and which database engine would be used for a particular technology. Data structuring process involved the determination and identification of how data would be stored and organised in the particular programme. The work also involved developing field type determination table for each of the required programme fields, whilst subsequently a programme was being used by the Group's programmers to test whether there was any missing link or inconsistency between the tables. System architecture required the Group's programmers to draw and layout a system flowchart of what to build for each particular programme. System analysis involved the breakdown of tasks and decision of programmer allocation on the entire programming project. Depending on the level of sophistication of a product, each phase in the pre-production process can last from days to months.

eCard

The Group first started the production of the eCard (with CDT). In March 2000, the Group prepared for production of eCard (with CDT) by conceptualising the product as well as designing the algorithm, the one that was later further developed and applied to other products of the Group. In preparation for the actual production of the eCard, the Group had completed the tools selection, data structure, system architecture and system analysis for the eCard pre-production process. By integrating the plain graphic designs for eCard with scripting language that implemented the CDT, the Group successfully encoded the programme for the eCard (with CDT) at the end of March 2000.

The eCard (with CDT) consisted of two parts, the pure graphic design and the underlying CDT. Being a new technology at that time, the CDT in the Group's eCard allowed the extractions of rich media contents from a database and amalgamation of such contents into the eCard itself, thus making it possible for incorporation of advertising messages dynamically in an eCard by the portal operators or advertisers. As an illustration, a cartoon character, instead of holding a generic cup, the eCard would modify the generic cup with a branded soft drink to promote the product dynamically at the advertiser's choice.

In March 2000, the Group engaged a Korean character and graphic design company to furnish 12 electronic greeting card graphical designs to the Group, which the Group had subsequently equipped these pure graphics design eCards with its own CDT.

In order to promote the Group's commercialised product, the eCard, the Group was involved in various negotiations on possible revenue sharing or cooperation, including a portal owned by a listed company in Hong Kong in a revenue sharing licensing of the Group's eCard that expired in September 2001 with no revenue received and Ssang Yong Corporation, a Korean conglomerate that involves in various sectors ranging from cement, trading, construction to insurance and telecommunications, on using the eCard created by the Group based on a revenue sharing agreement that was already expired as at the Latest Practicable Date and with no revenue received.

32days.com

In March 2000, Mr. Chan launched the 32days.com portal using HTML and ASP language on Windows NT platform to accommodate and advertise the eCard. The details of 32days.com and 32days.com Asia are set out in the “Connected transactions” in this prospectus.

CDMatrix

In March 2000, the Group also started the development of the CDMatrix, which the product provides a web-based platform for user to create and distribute on-line rich media content. The Group completed the conceptualisation of the CDMatrix by devising ways to apply the algorithm developed for the CDT from the eCard into this new product.

Similar to other products later developed by the Group, the development of the CDMatrix had gone through the same stages of the pre-production process in the following months.

CORPORATE STRUCTURE, HISTORY AND ACTIVE BUSINESS PURSUITS

Human Resources

The Group had four staff members at the end of March 2000. Mr. Chan, during this period, was the only person involved in the management of the Group.

The following table is a summary of the key developments for this period:

Period	Business development	R&D progress	Operation management
In March 2000	- Initiated contacts and discussions on possible revenue sharing or co-promotion cooperation	- Origination of the idea of the CDT for on-line rich media and content distribution	- Incorporation of HK Concepts Co in Hong Kong
Human Resources: Senior Management (Note 1)	1 with a portal owned by a listed company in Hong Kong and Ssang Yong Corporation on using the Group's eCards	- Programming and encoding of the first CDT that was used in eCard	
Administration	1		
R&D	2		
Total (Note 2)	4	- Combining the scripting language that implemented the CDT and the plain graphic designs for eCard using Macromedia Flash	
		- Incorporation of 12 pure graphic design eCards (with graphical design furnished by a Korean character and graphic design company) to the Group's own CDT	
		- Pre-production phase initiation for the CDMatrix. Completed conceptualisation by devising ways to apply the algorithm developed for the CDT from the eCard into this product	
		- Creation of 32days.com portal to house the eCard with CDT developed by Mr. Chan	

Notes:

1. Mr. Chan, being the only senior management in this period, was also involved in business development and worked full-time for the Group.
2. All staff were employed full-time for this period and no other staff than Mr. Chan was involved in the management of the Group.

History and Business Development from April 2000 to September 2000

From April 2000 to September 2000, the Group consolidated the pre-production stages of the CDMatrix and launched additional new products for on-line content distribution. At the same time, the Group entered into co-operative agreements with few business partners. The major achievements throughout this period included: a) Mr. Chan upgraded the 32days.com portal; b) carried out the pre-production for the CDMatrix, WAP Card and the CMS for Portal and Office; c) engaged CAIC to perform supporting functions in the CDMatrix production; and d) signed various memoranda of understanding with various business partners.

eCard

Starting from April 2000, the Group focused on the business development and promotion of the eCard and its underlying CDT while continued the R&D on the functional upgrades of the eCard.

In April 2000, the Group tested various application tools to create more advanced eCard with rich media contents.

In August 2000, 88 new eCards were developed and promoted in the 32days.com character-based portal.

In August 2000, HK Concepts Co signed a memorandum of understanding with Ssang Yong Corporation to develop a business alliance in the production of the eCard and WAP card based on a revenue sharing model using the Group's proprietary CDT (this arrangement was already expired as at the Latest Practicable Date and with no revenue received therefrom). Unfortunately, as a result of the restructuring that Ssangyong's infotainment portal (the one which embedded the Group's eCard) had gone through, the focus of this portal changed from eCard to console games, thereby leading to no revenue generated from this arrangement.

In September 2000, HK Concepts Co cooperated with the operator of sina.com.tw in a co-branding agreement which was expired in September 2001 with no revenue received therefrom and currently as a customer on the CMS for Office and other services with total sales of HK\$36,700 for the financial year ended 31st March, 2002 (HK\$nil for the financial year ended 31st March, 2001 and the three months ended 30th June, 2002) to launch the Group's eCard for product placement advertisement and sponsorship on sina.com.tw's portal. In return, the Group was specially allowed to promote its 32days.com character-based portal on sina.com.tw at no charge. Since its launching, the eCard was regularly listed on sina.com.tw's daily top 10 popularity list.

In the same month, HK Concepts Co entered into a Web content License Agreement with a portal owned by a listed company in Hong Kong pursuant to which that portal has exclusive right to use the eCard and HK Concepts Co was entitled to share the revenue generated from the use of the said eCard as product placement advertising and sponsorship. Nonetheless, no revenue was generated from this agreement as the industry was hard hit by the economic downturn, and such agreement was expired in September 2001.

32days.com

In April 2000, Mr. Chan, in anticipation for the release of a new version of the eCard, started and completed the development of a new version of 32days.com. The upgraded portal was launched in June 2000.

WAP Card

The Group started the pre-production process for the WAP Card with tools selection and data structuring in May 2000 and completed in June 2000. The WAP Card is similar in nature to the eCard, but the content delivery is set to go through connected mobile devices rather than through the Internet. In the following month, the Group completed the remaining pre-production phases of system architecture and system analysis.

CDMatrix

Following the initial conceptualisation in March 2000, the Group completed the tools selection and data structuring for the first-stage model of the CDMatrix in July 2000. The Group then started the last two pre-production phases and completed the system architecture and system analysis in September 2000.

After the preproduction phase, the Company had engaged CAIC to encode the programme for the CDMatrix for a total amount of HK\$4,524,000. Nonetheless the core parts in the development of the CDMatrix, such as the aforementioned diligent feasibility research, tools selection, data structuring, system architecture, and system analysis were all undertaken and performed in-house by the Group.

The first-stage model of the CDMatrix is a content distribution and multimedia presentation creation tool that allows users to make professional presentation contents by themselves and distribute the contents to their target audience.

During the course of subcontracting, the Group continuously monitored and coordinated with CAIC in reassuring that the CDMatrix was developed according to the planned specifications. For example, Mr. Chan and his staff 1) passed ideas (including the algorithms and specifications) on the research for the design and testing of the interface and the creation of database backend server, 2) guided the integration of the CDMatrix web interface and forwarded the industry review on button/banner advertising templates design to CAIC throughout various stages in the programme encoding period of the CDMatrix. This project was mainly handled by Mr. Kang Tae Wook, Mr. Jeon Sang Hoon, Mr. Fu Siu Yau, Mr. Todd Reich, Ms. Elizabeth McNeff and Mr. René Rosales of CAIC, Mr. Kang Tae Wook, Mr. Jeon Sang Hoon and Mr. Fu Siu Yau were subsequently engaged by the Group as contractors after dissolution of CAIC on 6th February, 2002.

The Group first developed the CDMatrix with an objective to automate the creation, management and distribution of rich media contents for its own use. With the experience accumulated through the development of the first-stage model, the Group realised that this product could become a web-based format. As a result, the Group had started another development process to build a second-stage model (web-based model) in August 2000. The Group started tool selection in September 2000.

CMS for Office and Portal

The Group, with the experience accumulated from the development of the eCard and CDMatrix, made use of the algorithms developed for these two products to build CMS for office managements and portal site operators for managing their delivery or flow of rich media contents. The Group started the pre-production of the CMS for Office and the CMS for Portal in June 2000 and completed all four phases in September 2000.

Human Resources

The Group had four staff members at the end of September 2000. Mr. Chan, during this period, was the only person involved in the management of the Group.

CORPORATE STRUCTURE, HISTORY AND ACTIVE BUSINESS PURSUITS

The following table is a summary of the key developments for this period:

Period	Business development	R&D progress	Operation management
From April 2000 to September 2000	- Signing of Memorandum of Understanding with Ssang Yong Corporation in August 2002 to develop an alliance in eCard and	- Upgrading of the 32days.com portal to accommodate the advanced eCard	- Launching of new version of 32days.com
Human Resources:			- Subcontracting CAIC in assisting the programme encoding of the CDMatrix
Senior Management (Note 1)	1 WAP card based on a revenue sharing model	- Testing of other tools for creating advanced eCard	- Monitoring and
Administration	1 using the Group's proprietary CDT	- Developed a rich media advertising tool and created advanced eCard	coordinating with the CAIC in reassuring the CDMatrix were developed according to the planned specification
R&D	2	- Development of 88 eCards for product placement advertising and sponsorship	
Total (Note 2)	4	- Completed pre-production and development processes for the WAP card including conceptualisation, tools selection, data structure, system architecture and system analysis	
	- Signing of co-branding agreement with the operator of sina.com.tw to launch the Group's eCards for product placement advertising and sponsorship in sina.com.tw's portal	- Completed whole pre-production process for first stage model of the CDMatrix including tools selection, data structure, system architecture and system analysis	
	- Signing of Web content License Agreement with a portal owned by a listed company in Hong Kong for exclusive right to use the eCard and shared the revenue generated from the use of the said eCard as product placement advertising and sponsorship	- Completed the whole pre-production process of the CMS for Office and the CMS for Portal including conceptualisation, tools selection, data structure, system architecture and system analysis	

Notes:

1. Mr. Chan, being the only senior management in this period, was also involved in business development and worked full-time for the Group.
2. All staff were employed full-time for this period and no other staff than Mr. Chan was involved in the management of the Group.

History and Business Development from October 2000 to March 2001

In this period, the Group continued to focus on the development of its business and products with the following achievement: a) actual development of first-stage model of the CDMatrix, the CMS for Office and Portal; b) signed memoranda of understanding with more business partners; and c) started the R&D for i-tvc.net and i-tvServe.net.

eCard and WAP Card

As both the eCard and the WAP Card products were fully developed, the Group focused primarily on the business development and promotion of the eCard and WAP Card and their underlying CDT throughout this period.

In December 2000, HK Concepts Co signed a memorandum of understanding with YesMobile (H.K.) Limited (“YesMobile”) to provide eCards and WAP Cards created by the Group for the use in the website of an ISP. The eCards and WAP Cards were delivered to YesMobile in the same month and a total of HK\$15,000 was generated under this arrangement until it was expired in December 2001. The Group made the first WAP Card sale to YesMobile in March 2001.

In December 2000, revenue sharing arrangement was also made with a mobile service operator in Hong Kong to provide WAP Cards for the use on its network. The Group charged a per download fee from users and an immaterial revenue of HK\$67 was generated under this arrangement for the financial year ended 31st March, 2002 (HK\$nil for the financial year ended 31st March, 2001 and the three months ended 30th June, 2002). The WAP Card supplied can be used for product placement advertising and sponsorship. This arrangement was expired in December 2001.

In January 2001, a memorandum of understanding was signed with Hachette Filipacchi Hong Kong Ltd. to allow the Group to create eCard for product placement advertising and sponsorship on a revenue sharing basis using visual copyrighted material from “Car & Driver” magazine. However, there was no demand on those contents (i.e. car photos) which had embedded with the Group’s eCard (with CDT) and therefore no revenue was generated. This arrangement was expired in January 2002.

In February 2001, a memorandum of understanding was signed with a model management company to allow the Group to create eCard for product placement advertising and sponsorship on a revenue sharing basis using the photos of models and talents represented by the model management company. However, situation similar to Hachette Filipacchi happened and no revenue was therefore generated. This arrangement was expired in February 2002.

32days.com

In October 2000, 32days.com Asia was incorporated. In the same month, 32days.com portal was transferred to 32days.com Asia with no formal agreement signed at no consideration because 32days.com portal was not needed as a promotion tool for the eCard of the Group after the engagement of sina.com.tw in a co-branding agreement, which was expired in September 2001 with no revenue received and currently as a customer of the CMS for Office and other services with total sales of

HK\$36,700 for the financial year ended 31st March, 2002 (HK\$nil for the financial year ended 31st March, 2001 and the three months ended 30th June, 2002), and the engagement of a portal owned by a listed company in Hong Kong in a revenue sharing licensing of the Group's eCard that expired in September 2001 with no revenue received.

CDMatrix

As CAIC had taken up workloads of the Group's R&D team on the CDMatrix, the R&D team of the Group devoted more time on the development of the CMS products and the research of the upgraded versions of its existing products. In this period, the R&D team of the Group continued with the pre-production phases for the second-stage model of CDMatrix (web-based model) and completed data structure, system architecture and system analysis in December 2000.

With the assistance of CAIC engaged to carry out the programme encoding procedures, the development of the first-stage model of the CDMatrix was completed and fully tested and was used in-house by the Group in March 2001.

CMS for Office and Portal

After completing the pre-production in the last period, the Group completed the final programme encoding of the CMS for Office and Portal.

In March 2001, several CMS add-on modules targeting different functional applications were developed. Such add-on modules include Membership, Email Broadcasting, Forum, and Chat Room. As an illustration, the Membership module allows a company/portal with membership system to manage and distribute contents relating to the membership in the ways the company/portal desires.

i-tvc.net and i-tvServe.net

Upon the successful development of the CMS, the Group started market research on way of playing rich media contents on the Internet other than streaming and downloading methods in late October 2000. The research was conducted because the Group believed that a new and more efficient delivery methodology of rich media advertising and other short time frame video contents would be required by the portal operators as both streaming and downloading methods were not the most desirable methods.

In November 2000, the Group successfully completed the development of a player to display rich media advertisements on the Internet using Macromedia Flash technology. The player allows the distribution of sound clips and interactive animations in on-line advertisements and formed a building block for the Group's i-tvc.net technologies.

Combining the success in the development of the aforementioned player and previously developed concept, the Group started the pre-production of i-tvc.net in November 2000.

The Group, after finishing all the pre-production phases in February 2001, applied the algorithms of the eCard's underlying CDT to create a player that can automatically detect, download, include, and deliver rich media content as well as collecting on-line users' behavioural statistics.

In March 2001, the Group pre-launched the i-tvc.net phase one product. The development of a proprietary player to play short video contents on the Internet was also started in March 2001. This player, regarded as i-tvc.net phase two product, was developed by using self-developed methodology to minimise bandwidth requirement while progressively enhancing the video quality as time passes. The Group also started the pre-production for the i-tvServe.net product.

General Marketing & Promotion

As a line of products from the CDT had been developed, the Group went on to adopt a series of general marketing and promotional campaigns for the existing products throughout this time period. The series of marketing and promotional campaigns were carried out through cooperation with a portal owned by a listed company in Hong Kong, with activities including the promotion of the Group's eCard through monthly newsletter, banner and button advertising promotion on the website, out-door promotional activities and sponsorship promotion on other media. In this time period, Mr. Chan was also interviewed by Metro Radio's Go for IT programme.

Human Resources

The Group had four staff members as at the end of March 2001. Mr. Cheung Ka Kin, an executive Director, joined the Group and assisted in R&D. Nonetheless, Mr. Chan was the only person involved in the management of the Group.

CORPORATE STRUCTURE, HISTORY AND ACTIVE BUSINESS PURSUITS

The following table is a summary of the key developments for this period:

Period	Business development	R&D progress	Operation management
From October 2000 to March 2001	- 32days.com portal was transferred to 32days.com Asia in October 2000 with no formal agreement signed and no consideration paid.	- Continued and completed pre-production of second-stage model (i.e. web-based) of the CDMatrix including data structure, system architecture and system analysis	- Resources were applied to management of eCard with CDT launch at a portal owned by a listed company in Hong Kong and sina.com.tw, marketing and promotion of the Group's advertising products and developing partnerships with on-line advertising and portal operators
Human Resources: Senior Management (Note 1)	2		
Administration	1		
R&D	1		
Total (Note 2)	<u>4</u>		
	<ul style="list-style-type: none"> - Monthly newsletter of a portal owned by a listed company in Hong Kong promoting the Group's eCard for product placement advertising and sponsorship - Radio interview of Mr. Chan's in Metro Radio's Go for IT programme - Banner and button advertising promotion in a portal owned by a listed company in Hong Kong - Outdoor promotional activities with marketing team of a portal owned by a listed company in Hong Kong - Memorandum of understanding signed with YesMobile to provide eCard and WAP Card created by the Group to use in the website of an ISP - Arrangement made with a mobile service operator in Hong Kong to provide WAP Card to use on the one of the largest mobile service network in Hong Kong network for product placement advertising and sponsorship 	<ul style="list-style-type: none"> - Administer testing of first-stage model the CDMatrix modules - Completed development first stage model of CDMatrix for in-house use - Completed development of the CMS for Office and Portal - Developed CMS modules: Membership, Email Broadcasting, Forum and Chat Room - Started development of proprietary player to play short video contents on the Internet using self-developed technology to minimise bandwidth requirement while enhancing video quality - Commenced market research on ways of playing rich media contents on the Internet other than streaming and downloading methods - Developed player to display rich media advertisements on the Internet using Macromedia Flash technology 	

CORPORATE STRUCTURE, HISTORY AND ACTIVE BUSINESS PURSUITS

Period	Business development	R&D progress	Operation management
From October 2000 to March 2001	<ul style="list-style-type: none">- Memorandum of understanding signed with Hachette Filipacchi Hong Kong Ltd. to allow the Group to create eCard for product placement advertising and sponsorship using copyrighted material from “Car & Driver” magazine- Memorandum of understanding signed with a model management company to allow the Group to create eCard for product placement advertising and sponsorship using photos of models and talents represented by that company- WAP Card sold to YesMobile	<ul style="list-style-type: none">- Started pre-production of i-tvc.net. Completed conceptualising tools selection, data structure, system architecture and system analysis within this time period	

Notes:

1. Mr. Chan was involved in business development and Mr. Cheung Ka Kin, an executive Director was involved in R&D despite they were the senior management in this period. Mr. Chan started full-time work for the Group since March 2000.
2. All staff were employed full-time for this period and no other staff than Mr. Chan was involved in the management of the Group.

History and Business Development from April 2001 to September 2001

The Group, after being in operation for a year, achieved results in the following areas in this period: a) recorded first sales for some of its products; b) achieved certain development in i-tvc.net; and c) achieved substantial development in i-tvServe.net.

eCard and WAP Card

In June 2001, the Group made its first sale of eCard to Daihatsu.

The Group continued to provide WAP mobile content to a mobile service operator in Hong Kong under a revenue sharing agreement that expired in December 2001 with a total revenue of HK\$67 for the financial year ended 31st March, 2002 (HK\$nil for the financial year ended 31st March, 2001 and the three months ended 30th June, 2002) and WAP Card to YesMobile under a Memorandum of Understanding which expired in December 2001 with a total sale of HK\$12,500 for the financial year ended 31st March, 2002 (HK\$2,500 for the financial year ended 31st March, 2001 and the three months ended 30th June, 2002). The Group had also created 200 WAP mobile eCard for product placement advertising and sponsorship in April 2001.

CDMatrix

In May 2001, the Group used its non-commercialised version of the CDMatrix to create rich media contents and made its first sale to a bus TV channel and content provider for HK\$2,000.

The amount was charged as a fixed fee for the content created and the detail methods are set out under “Revenue models” in the section headed “Business” in this prospectus.

CMS

In August 2001, the Group made its first sale of the CMS for Office to an international airline operator for HK\$4,000. The first sale of the CMS for Portal was made in September 2001 to 32days.com Asia for HK\$390,000.

In September 2001, more CMS for Portal modules were developed, namely Rich Media Content Management and Classified Advertisement.

i-tvc.net

In July 2001, the Group developed of i-tvc.net phase two product by adding the Macromedia Flash technology to i-tvc.net and enriched their existing content for playing video on the Internet (i-tvc.net Player). In view of the growing popularity of the Macromedia Flash technology, the Group also started the development of an i-tvc.net player based on the Macromedia Flash technology for rich media advertising and Internet video.

In September 2001, the Group made its first sale of i-tvc.net to the Hong Kong office of an on-line advertising agency with a total sale to this customer on products/services including the CMS for Office and rich media service produced by in-house CDMatrix on an one-off basis amounting to HK\$22,675 for the financial year ended 31st March, 2002 and HK\$43,400 for the three months ended 30th June, 2002 (HK\$nil for 2001).

i-tvServe.net

The Group started the pre-production of i-tvServe.net in early April 2000 after Mr. Chan and his team conceptualise the idea of applying the algorithms from the CMS and the CDMatrix to a new advertising serving system which can complement the i-tvc.net. Based on this objective, the Group had started data structuring of the i-tvServe.net in April 2001 and completed this phase together with system architecture in May. In June 2001, the Group completed the system analysis pre-production phases. With the experience accumulated in i-tvc.net development, the Group consolidated the development of i-tvServe.net by successful integration of the algorithms and the Group’s CDT into this product.

In July 2001, the Group added the in-house developed “advertising serving and delivery system” to the i-tvServe.net. This system enables i-tvServe.net to handle different kinds of advertising creatives as well as to handle targeting and reporting of on-line advertisements.

In September 2001, the Group started the testing for the i-tvServe.net in preparation for its formal launch.

General Marketing and Promotion

During this time period, the Group initiated contacts a newspaper publisher in Hong Kong, a customer of the Group for one-off CMS for Office and other CMS services with total sale of HK\$22,500 for the financial year ended 31st March, 2002 (HK\$ nil for the financial year ended 31st March, 2001 and the three months ended 30th June, 2002) and an on-line advertising media agency for developing on-line advertising creative for the agency’s client.

Human Resources

The Group had ten staff members at the end of September 2001, an increase of six in headcounts (including those contractors recruited from CAIC after its dissolution). Mr. Chan, though with Mr. Cheung Ka Kin’s assistance in research and development, was the only person involved in the management of the Group. In addition, Ms. Han Seung A, the wife of Mr. Chan, joined the Group in June 2001 advising the development of the Group in the Korean market.

CORPORATE STRUCTURE, HISTORY AND ACTIVE BUSINESS PURSUITS

The following table is a summary of the key developments for this period:

Period	Business development	R&D progress	Operation management
From April 2001 to September 2001	- Providing WAP mobile content to a mobile service operator in Hong Kong and WAP eCard to YesMobile	- Creation of 200 WAP mobile eCards for product placement advertising and sponsorship	- Launching of the i-tvc.net Phase One
Human Resources: Senior Management (Note 1)	2	- Development of various modules of the CMS namely Rich Media Content Management and Classified Advertisement	- Launching of the CMS for Office
Administration	1		
Business Development	2		
R&D (Note 2)	5	- Development of i-tvc.net player based on Macromedia Flash technology for rich media advertising and Internet video	
Total (Note 3)	<u>10</u>	- First sale of eCard to Daihatsu	
		- First sale of CDMatrix-produced products to a bus TV channel and content provider	
		- First sale of CMS for Office to an international airline operator	
		- First sale of CMS for Portal to 32days.com Asia	
		- First sale of i-tvc.net to Hong Kong office of an on-line advertising agency	
		- Adding the Macromedia Flash technology to i-tvc.net and enriched its existing content for playing video on the Internet for the i-tvc.net player	
		- Started conceptualisation of i-tvServe.net with the idea of applying the algorithms from CMS and CDMatrix to a new advertising serving system which can complement i-tvc.net	
		- Completion of the whole preproduction process of the i-tvServe.net including tools selection, data structure, system architecture and system analysis	
		- Consolidation of the development of i-tvServe.net by integration of the algorithm and the Group's CDT into this product	
		- Started testing of the i-tvServe.net	

Notes:

1. Mr. Chan was involved in business development and Mr. Cheung Ka Kin was involved in research and development despite they were the senior management in this period. Mr. Chan started full-time work for the Group since March 2000.
2. All of them were contractors for this period.
3. Apart from those contractors in note 2 above, all other staff were employed full-time for this period, with Mr. Chan being the only person involved in the management of the Group.

History and Development from October 2001 to March 2002

Throughout this time period, the Group concentrated on the development of i-tvc.net and i-tvServe.net with the following achievements: a) completed the development of i-tvc.net (with patent pending technologies incorporated); b) tested both i-tvc.net and i-tvServe.net with TVB.COM; and c) started the development of the commercialised version of the CDMatrix.

CDMatrix

In December 2001, the Group, in view of the efficiency that the CDMatrix had brought in the creation, management and distribution of rich media contents, started to try to commercialise this product. Based on the previous experience, the Group only used two months in pre-production with all phases completed in February 2002.

CMS

In November 2001, the development of customisable CMS was completed, with both the CMS for Portal and the CMS for Office became fully adaptable to different size and complexity of projects. As a result of this completion, the Group started initiating contacts with potential customers.

In December 2001, the Group entered into two agreements, one with Universal Music Limited and the other with an official portal of a pop singer in Hong Kong, both are Independent Third Parties, whereby the Group is retained to provide CMS products on a monthly basis with effect from January 2002. As such, the Group generated monthly recurring income from January 2002. The revenue generated from Universal Music for the CMS for Portal (continuous) and one-off rich media content creations amounted to HK\$222,200 for the financial year ended 31st March, 2002 and HK\$90,000 for the three months ended 30th June, 2002 (HK\$nil for 2001). For the official portal of the pop singer in Hong Kong, the total revenue generated from the CMS for Portal (continuous) and one-off rich media content creations amounted to HK\$250,340 for the financial year ended 31st March, 2002 and HK\$39,500 for the three months ended 30th June, 2002 (HK\$nil for 2001).

i-tvc.net and i-tvServe.net

In January 2002, the Group finally completed the development of the phase two i-tvc.net. Two unique technologies previously used in the development of the i-tvc.net were successfully built and the application for patent registration of these two unique technologies was submitted in the United States on 8th February, 2002 under Mr. Chan's name (these patent registrations were later assigned to i-tvc.net Limited on 23rd April, 2002). These two technologies are (i) progressive interlacing video delivery technology for i-tvc.net and (ii) the interactive features enabler with on-line users' behavioural analysis support from the i-tvServe.net advertising serving technology. The filing of the patent application in the United States is to take advantage of the one-year convention priority period to test the market. If the feedback from customers is positive, the Group may consider filing other applications in other countries for patent protection within the one-year claiming priority period based on this application.

In February 2002, the Group started the testing of the phase two i-tvc.net.

In March 2002, the new i-tvc.net incorporated with the two above-mentioned technologies integrated with the i-tvServe.net advertising serving system. Testing of the integrated technology was performed on TVB.COM with no fee arrangement involved, but TVB.COM later used the i-tvc.net service with a total revenue of HK\$13,500 received by the Group. The Group entered into a sales agreement with 康得金控股有限公司, an Independent Third Party in the PRC, later in the same month for the provision of one-off i-tvServe.net service for a total amount of HK\$800,000 for the financial year ended 31st March, 2002 (HK\$nil for the financial year ended 31st March, 2001 and the three months ended 30th June, 2002).

eMail-Blast.net

In February 2002, the Group started the pre-production process of eMail-Blast.net mass Email Broadcast System and completed the tools selection at the end of the month. This system utilised the CDT of i-tvServe.net to deliver and distribute newsletter and advertising contents in the form of electronic Email to targeted recipients as defined by the content owner with real-time reporting feature.

i-tvc.net for PDA

The Group decided to apply the technology of i-tvc.net to PDA. Pre-production of this new product was performed in February 2002, with actual development carried out in March. Due to the similarity the algorithm used in between i-tvc.net and i-tvc.net for PDA, the Group completed the development of i-tvc.net for PDA with scripting language on different operating systems in the same month.

Human Resources

The Group had fourteen staff members at the end of March 2002, an increase of four in headcounts in business development and research and development. Mr. Chan, with the assistance of Mr. Cheung Ka Kin in R&D, was the only person involved in the management of the Group.

CORPORATE STRUCTURE, HISTORY AND ACTIVE BUSINESS PURSUITS

The following table is a summary of the key developments for this period:

Period	Business development	R&D progress	Operation management
From October 2001 to March 2002	- Entering in agreement for providing the CMS product with Universal Music Limited	- Completion of the whole pre-production process of the CDMatrix commercialised version product including	- Applications for patent registration of two technologies in the United States under Mr. Chan's name
Human Resources: Senior Management (Note 1)	2 - Entering in agreement for providing the CMS	conceptualisation, data structure, tools selection, system architecture and system analysis	
Administration	1 product with an official portal of a pop singer in Hong Kong		
Business Development	3		
R&D (Note 2)	8 - First sale of i-tvServe.net to 康得金控股有限公司	- Testing and final programme encoding of CMS	
Total (Note 3)	<u>14</u>	- Development of the two patent pending technologies for the i-tvc.net	
		- Testing of i-tvc.net with progressive video delivery	
		- Testing of the i-tvc.net technology on TVB.COM	
		- Completed eMail-Blast.net mass Email Broadcast System tools selection	
		- Completion of the whole pre-production process of the i-tvc.net for PDA product including conceptualisation, data structure, tools selection, system architecture and system analysis	

Notes:

1. Mr. Chan was involved in business development and Mr. Cheung Ka Kin was involved in R&D despite they were the senior management in this period. Mr. Chan started full-time work for the Group in March 2000.
2. Five of them were contractors for this period.
3. Apart from those contractors in note 2 above, all other staff were employed full-time for this period, with Mr. Chan being the only person involved in the management of the Group.

History and Development from April 2002 to the Latest Practicable Date*eCard*

With the new product of i-tvc.net with more functions and better quality in terms of speed and memory requirement, the role of eCard in the Group gradually diminished. In April 2002, the design parts of the eCard were transferred from the Group to 32days.com Asia with no formal agreement signed at no consideration. This disposal was made after the Group's consideration that the eCard could no longer generate significant revenue to the Group. Moreover, the Internet bubble has diminished the attraction of portals to investors. Currently, 32days.com portal is inactive in the way that no staff is administering the portal and all the design parts of the eCard have not been used or sold. Nonetheless, 32days.com portal can still be accessed as a non-profit website which provides information on eCard to its visitors.

In this period, the Group had made significant progress in business development.

i-tvc.net for PDA

In April 2002, the Group developed the first player and tested it with satisfactory results on pocket PC 2002 powered PDA. The Group also started the testing of this player on other mobile platforms.

WAP Card with CDT for i-tvc.net for PDA

The Group decided to combine the features of the WAP Card and the i-tvc.net for PDA together. Based on the developed proprietary technologies, the Group combined the algorithms from the WAP Card and the i-tvc.net for PDA and started the pre-production phases in April 2002. As at the Latest Practicable Date, the Group was in the final development stage of this new product.

eMail-Blast.net

In April 2002, the Group completed the remaining pre-production phases. The Group then encoded the programme in May and had completed its development in June 2002.

i-tvSurvey.net

In May 2002, the Group started the development of i-tvSurvey.net web form data analysis system. The product is designed to utilise the User Behavior Analysis ("UBA") module in i-tvServe.net to produce real-time statistic reports on data collected from web and analysed the same with the data collected by i-tvSurvey.net.

Marketing and Promotion

In April 2002, the Group started the promotion of service in a news portal in Hong Kong and expanded the promotion plan with a newspaper publisher in Hong Kong, being a customer of the Group for one-off CMS for Office and other CMS services with total sale of HK\$22,500 for the financial year ended 31st March, 2002 (HK\$nil for the financial year ended 31st March, 2001 and the three months ended 30th June, 2002).

In May 2002, Universal Music Limited, a customer of the Group for the CMS for Portal (continuous) and one-off rich media content creations amounted to HK\$222,200 for the financial year ended 31st March, 2002 and HK\$90,000 for the three months ended 30th June, 2002 (HK\$nil for 2001), began to use i-tvc.net player on its umg.com.hk music portal to allow users to preview music TVs. The video clips could also be viewed from the Group's i-tvc.net portal.

Also in May 2002, a concert organiser used the Group's eCommerce System, a module of the Group's CMS, to sell concert tickets.

In June 2002, the Group concentrated on the marketing and promotion of its products. On 11th June, 2002, Mr. Chan was interviewed by Television Broadcasts Limited and demonstrated the Group's newly developed product, the i-tvc.net for PDA. In the same month, the Group was negotiating with a real estate agency in Hong Kong for the use of the Group's i-tvc.net technology in its real estate agency business in the Asia Pacific region.

In July 2002, the Group continued its ongoing marketing and public relation efforts. The Group was interviewed by the Hong Kong Economic Times, Sing Pao Daily, The SUN, Oriental Daily, the Standard and PC Market on various proprietary products developed by the Group particularly on the Group's i-tvc.net product. Riding on the increased public awareness, the Group continued to explore potential strategic partners and customers for its i-tvc.net technology. The Group was in negotiations with various strategic partners and customers, including Universal Music Limited, a customer of the Group on CMS for Portal (continuous) and one-off rich media content creations amounted to HK\$222,200 for the financial year ended 31st March, 2002 and HK\$90,000 for the three months ended 30th June, 2002 (HK\$nil for 2001), and a portal owned by a listed company in Hong Kong, a partner which the Group had cooperation in a revenue sharing licensing of the Group's eCard that expired in September 2001 with no revenue received, concerning the potential deployment of the i-tvc.net technology onto their portals.

In August 2002, the Group was interviewed by the Capital Magazine, Ta Kung Pao, Express Weekly, Hi-Tech Weekly and the South China Morning Post. On the business development side, the Group negotiated with various mobile telecommunication providers in Hong Kong to identify the potential use of its i-tvc.net for PDA product and potential strategic alliances including a mobile telecommunication provider in Hong Kong who used to be the customers of the Group's WAP Card product. In the same month, the Group was in negotiations with (subject to confirmation of the terms of the agreement) an Internet content provider in the PRC for deploying the i-tvc.net technology onto its portal and was in a process of preparing the relevant agreement.

Human Resources

The Group had fifteen staff members as at the Latest Practicable Date, an increase of one as compared with the previous period. Mr. Chan, though with the assistance of Mr. Cheung Ka Kin in R&D and the assistance of Mr. Chung Yan Yee, Andrew in operation and financial management, was the only person involved in the management of the Group. In addition, Ms. Wong Cheung Yun, the mother of Mr. Chan, joined the Group in May 2002 advising the business development of the Group in the PRC market.

CORPORATE STRUCTURE, HISTORY AND ACTIVE BUSINESS PURSUITS

The following table is a summary of the key developments for this period:

Period	Business development	R&D progress	Operation management
From April 2002 to the Latest Practicable Date	- Promotion of service on a news portal in Hong Kong	- Tested i-tvc.net player on Pocket PC powered PDAs	- Interview and demonstration with the TVB to perform its newly developed product, the i-tvc.net for PDA
Human Resources:	- Entering in agreement with a concert organiser to use the Group's CMS to sell concert tickets	- Completion of the tool selection and data structuring of the WAP Card with CDT for i-tvc.net for PDA product	
Senior Management (Note 1)	3		
Administration	1	- System architecture of the WAP Card with CDT for i-tvc.net for PDA product and the Email-Blast.net	
Business Development (Note 2)	3		
R&D (Note 3)	8	- System analysis for the WAP Card with CDT for i-tvc.net for PDA product	
Total (Note 4)	15		
	- Negotiation with a portal owned by a listed company in Hong Kong on the i-tvc.net deployment project	- Completion of the whole preproduction process of the eMail-Blast.net	
	- Interview with the Hong Kong Economic Times, Sing Pao Daily, The SUN, Oriental Daily, the Standard and PC Market	- Programme encoding for the eMail-Blast.net	
	- Interviewed with the Capital Magazine, Ta Kung Pao, Express Weekly, Hi-Tech Weekly and the South China Morning Post	- Testing of the eMail-Blast.net	
	- Negotiation with various mobile telecommunication providers in Hong Kong to identify the potential use of its i-tvc.net for PDA product and potential strategic alliances	- Development of i-tvSurvey.net web form data analysis system	
	- Negotiation with an Internet content provider for deploying the i-tvc.net technology into their portal		

Notes:

1. Mr. Chan was involved in business development and Mr. Cheung Ka Kin was involved in research and development despite they were the senior management in this period. Moreover, Mr. Chung Yan Yee, Andrew joined the Group during this period and he was responsible for the operation and financial management. Mr. Chan started full-time work for the Group since March 2000.
2. Two of them were contractors for this period.
3. All of the five contractors (as aforementioned) became full-time employees in June 2002.
4. Apart from those contractors in note 2 above, all other staff were employed full-time for this period, with Mr. Chan being the only person involved in the management of the Group.

INTRODUCTION

The Group, being one of the on-line rich media and content distribution solution providers in Hong Kong, has its business focus in developing products and technologies for on-line rich media and content distribution using the tools or solutions developed by it. The content distribution technology developed by the Group covers frontend (i.e. content delivery) and backend (i.e. content management and creation) which can make content delivery and management more efficient and effective in terms of speed, flexibility, functionality and compatibility using minimal computer memory in the process. The content distribution technology developed by the Group can also automate the content distribution process and provide new technique to enhance the overall result of the process.

Along the history of the Group, Mr. Chan and his staff have developed an algorithm (i.e. a logical sequence of steps used in computer programming for problem solving) for the content distribution technology, which has been consistently applied to different products of the Group, ranging from the first eCard to the latest commercialised version of the CDMatrix.

The niche of the Group is to deal with the shortcomings of on-line rich media and content distribution in terms of speed, cost, server's capacity and interactiveness between the content owners and the audience by the use of content distribution technology. As a result, an advertiser or content owner that would like to reach its audience/viewers or to acquire viewers' behavioural information on the Internet may channel its short motion pictures in a low-cost and speedy manner. The Group's on-line rich media and content distribution solutions, through the applications of the content distribution technology, focus on the following three areas:

- 1) On-line advertising solutions ("OAS"): rich media delivery and users' behavioural analysis by proprietary advertisement serving system, multimedia presentations in different formats, such as animations and video clips, button and animated banner advertising;
- 2) Mobile advertising solutions ("MAS"): rich media delivery and users' behavioural analysis by proprietary advertisement serving system on mobile connected devices; and
- 3) Content management solutions ("CMS"): manage rich media contents and other digital contents of a portal site or small/medium corporate sites and provide supporting services in IT consultation and infrastructure improvement.

BUSINESS MODEL

The Group has a focused objective in its business model: to disseminate rich media and content on-line or through connected mobile devices by the use of content distribution technology with the provision of supporting services, such as IT consultation and infrastructure improvement, to customers as a total package. The target of the Group is to become an on-line rich media and content distribution solution provider in Asia.

CDT is the technology used for disseminating contents and the CDT developed by the Group was originated from the algorithm developed by Mr. Chan, which is a finite set of precise instructions for performing a calculation or solving a problem.

The first algorithm in CDT was developed by Mr. Chan in March 2000, and it was used in the Group's first product, the eCard (with CDT), as a logical sequence of steps and procedures to include specific advertising contents generated from a remote server into an electronic greeting card. The eCard, which is an advertising tool with programme codes attached to a pure graphic design electronic greeting card for inclusion of advertising contents generated, has its algorithm implemented by script language used in Macromedia Flash (i.e. the eCard programme codes) to perform the tasks of: i) detection of the availability of an advertising content; ii) downloading the advertising content; and iii) inclusion and dissemination of the advertising content.

When the Group started the diligent research, the feasibility studies and the pre-production step of the CDMatrix in March 2000, Mr. Chan restructured the above-mentioned algorithm by allowing additional logical sequences to be added to support additional functions of the CDMatrix and to replace certain fixed scenario steps to facilitate different decision making procedures. The two algorithms are similar in the way that there are common logical sequences implemented. The CDMatrix is a creation tool that enables non-professional users to create and distribute rich media contents automatically based on the project templates and the effect modules. The updated algorithm for the CDMatrix was implemented by PHP language used on the Linux platform (i.e. the CDMatrix programme codes) to perform the tasks of: i) automation of the process of rich media content creation; ii) managing common data used in the CDMatrix projects to achieve efficiency; and iii) optimisation of the distribution of rich media contents through the CDMatrix servers. The CDMatrix programme codes for the task (iii) were derived from the algorithm used in eCard (with CDT) because both have the similar functions and utilise the same logical sequence (i.e. same steps to obtain data from a server).

In April 2000, the Group decided to use the algorithm developed for the eCard to the mobile-platform-based WAP Card, which is an advertising tool with programme codes enabling a pure graphic design WAP Card to include advertising contents generated on mobile phones through a mobile network. This updated algorithm was implemented by scripting language on Windows NT platform (i.e. the WAP Card programme codes) to perform the tasks of: i) detection of the availability of an advertising content; ii) combining the advertising content with the WAP Card; and iii) distribution of the WAP card to the mobile network. The Group started the actual development of WAP Card in May 2000 and completed the pre-production in June 2000.

The CMS for Office and the CMS for Portal, both developed since June 2000 with first few modules completed in March 2001, include a number of modules, such as Membership, Email Broadcasting, Forum and Chat Room, and each of these modules performs specific functions by using programme codes implemented with algorithms (i.e. the CMS programme codes). The CMS for Office is a content management system which allows non-professional users to add, remove and change website contents and to distribute them on-line. The CMS for Portal performs similar functions, except that its focus is on web portal contents. These CMS programme codes were implemented by PHP language used on the Linux and Windows NT platforms to perform the tasks of: i) automation of the

process of content update and creation; ii) managing common data used in each module to achieve efficiency; iii) optimisation of the distribution of contents through CMS servers; and iv) determination of the correct content to distribute to users upon request. All these functions were actually derived from the algorithms used in the eCard and the CDMatrix.

Developed since November 2000, i-tvc.net, being an interactive video player for distribution of interactive video instantaneously (pending patent registration in the United States), is based on the on-line users' feedback. i-tvc.net is developed from the eCard and its algorithms were implemented by scripting language used in Macromedia Flash and scripting language on the Linux platform (i.e. the i-tvc.net programme codes) performing the tasks of: i) detection of the availability of an advertising content; ii) downloading the advertising content; iii) inclusion and dissemination of the advertising content; iv) distribution of the interactive contents based on the users' feedback; v) detection of the content loading status on target page; vi) detection and estimation of the users' connection bandwidth; vii) delivering rich media contents in sequence based on the connection speed and the content length; and viii) collection of the users' behavioural statistics and delivery of data to the backend server. In terms of the above, the i-tvc.net programme codes for the tasks (i), (ii) and (iii) are based on the same algorithms used in the eCards as they perform the same functions. Furthermore, the i-tvc.net programme codes for task (iv) are based on task (ii) in the eCards; task (v) is based on task (iii) in the eCard; and task (viii) is based on task (i) in the eCard. All of these were derived from the algorithms used in the eCards as there are similar logical sequences involved.

i-tvServe.net, an advertising serving system which allows advertising agencies to setup and distribute on-line promotion campaigns and supports all available rich media contents and i-tvc.net video format, was developed by the Group based on a set of algorithms derived from those used in CMS and the CDMatrix server modules to perform the tasks of: i) managing advertising campaign and client database to achieve efficiency; ii) optimisation of the distribution of rich media contents through the i-tvServe.net servers; iii) automation of the process of advertising campaign; iv) managing common data used in each module efficiently; v) determination of the correct content to distribute to users upon request; vi) queuing the users' requests for content and routing the traffic through the i-tvServe.net servers; vii) collection of the users' behavioural statistics from websites and i-tvc.net player; and viii) analysing the users' behavioural statistics and generation of reports for advertisers. These algorithms were implemented by scripting language used in Macromedia Flash and PHP language used on the Linux platform (i.e. i-tvServe.net programme codes) with programme codes for the tasks (i) and (ii) derived from algorithms used in the CDMatrix, the tasks (iii) and (vii) derived from the algorithms used in the eCard, and the tasks (iv); (v); and (vi) derived from algorithms used in CMS.

i-tvc.net for PDA, an interactive video player for distribution of interactive video instantaneously (pending patent registration in the United States), is based on the users' feedback on PDA through a wireless network, which is based on the same algorithms used in i-tvc.net, with the only difference in the programming languages used for the implementation of the algorithms (i.e. i-tvc.net for PDA programme codes). The i-tvc.net for PDA programme codes were implemented by scripting languages on different operating systems.

REVENUE MODELS

The Directors believe that the revenue derived from OAS, MAS and CMS will continue to become the major income source for the Group in the near future. Set out below is a summary of the core revenue models of the Group.

OAS

The following table illustrates the different revenue models that the Group uses for its various products under OAS:

Products	Date and customer of the first sale (Total sales to this client)	Intended revenue models and actual models used	
CDMatrix (Being upgraded)	18th May, 2001	Setup Fee Plus Pay-Per-Use	Not yet in use
	A bus TV channel	Fixed Fee Only	In use
	and content provider (Apr-June 2002: HK\$nil 2002: HK\$2,000 2001: nil)	Pay-Per-Use Only	Not yet in use
eCards (Discontinued)	8th June, 2001	Fixed Fee Only	In use
	Daihatsu	Revenue Sharing	In use
	(Apr-June 2002: HK\$nil 2002: HK\$93,780 2001: nil)		
i-tvc.net & i-tvServe.net	6th September, 2001	Setup Fee Plus Click-On Fee	In use
	The Hong Kong	Fixed Fee Only	In use
	office of an on-line advertising agencies (Apr-June 2002: HK\$90,000 2002: HK\$22,675 2001: nil)	Revenue Sharing	Not yet in use

The Group uses non-commercialised version of CDMatrix to create upstream rich media contents to complement its downstream advertisement serving and delivery solutions. For such service, the Group charges its customers a fixed fee for the content created but not for the use of the CDMatrix and the amount, which is calculated on a project basis, varies according to the complexity of the creation. During the financial year ended 31st March, 2002, all sales in relation to the CDMatrix in this format amounted to HK\$146,000 (HK\$nil for the financial year ended 31st March, 2001 and three months ended 30th June, 2002).

BUSINESS

As of the Latest Practicable Date, the Group was in the process of upgrading the CDMatrix to a web-based commercialised version and end users can use this to create rich media contents by themselves. The Group will earn licensing/selling fee therefrom and plans to charge corporate users a fixed setup fee and a pay-per-use fee and end users a pay-per-use fee for the use of the software/programme.

For eCards, the Group charged its customers a fixed setup fee for using the proprietary CDT in eCards. The Group has also been engaged by various companies to market the eCards to end users on a revenue sharing basis.

The Group charges each customer a setup fee for using the proprietary advertising serving system, i-tvServe.net. In addition, a click-on fee is charged on the content owners every time the advertisement is viewed. If a customer also wants to use the Group's proprietary i-tvc.net to broadcast rich media contents, such as TVCs on the Internet, a higher setup and click-on fee will be charged. If reporting and serving capability of i-tvServe.net is not required by the customers, i-tvc.net can be provided as a stand-alone product with a fixed fee negotiated on a case-by-case basis. The Group also plans to make available i-tvc.net and i-tvServe.net to other content providers and portals on a revenue sharing basis.

The Group plans to use the existing revenue models for all future products.

MAS

The following table illustrates different revenue models the Group uses for its various products under MAS:

Products	Date and customer of the first sale (Total sales to this client)	Intended revenue models and actual models used	
i-tvc.net for PDA (Not marketed yet)	N/A	Setup Fee Plus Variable Fee Fixed Fee Only Revenue Sharing	Not yet in use Not yet in use Not yet in use
WAP Cards (<i>Note 1</i>)	19th March, 2001 YesMobile (Apr-June 2002: HK\$nil 2002: HK\$12,500 2001: HK\$2,500)	Setup Fee Plus Variable Fee Fixed Fee Only Revenue Sharing	Not yet in use In use In use

Note:

- The WAP Card, though derived from the algorithm of eCard, does not has its design part transferred out of the Group as eCard does.

BUSINESS

The Group charges its MAS products in three different ways; a fixed fee, a fixed plus variable fee, or on a revenue sharing basis. A fixed monthly fee is charged on MAS with average demand such as those used in the portals of some telecommunication companies. If a MAS product is anticipated to have high demand potential, a fixed fee plus variable fee model instead of a fixed fee basis will be used and the fee is charged every time the mobile subscriber access to that product. The Group has worked with mobile network operators based on a revenue sharing model, which the Group and the mobile network operators share revenues collected from mobile phone users each time they access to a MAS product.

The Group plans to use the existing revenue models for all future products.

CMS

The following table illustrates different revenue models the Group uses for its various products under CMS:

Products	Date and customer of the first sale (Total sales to this client)	Intended revenue models and actual models used	
CMS for Office	24th August, 2001	Setup Fee Plus Monthly Fee	In use
	An international airline operator (Apr-June 2002: HK\$nil 2002: HK\$4,000 2001: nil)	Fixed Fee Only	In use
CMS for Portal	3rd September, 2001	Setup Fee Plus Monthly Fee	In use
	32days.com Asia (Apr-June 2002: HK\$390,000 2002: HK\$1,090,000 2001: nil)	Fixed Fee Only	In use

The Group charges each customer a one-off installation fee of CMS and the amount of which will vary depending on the complexity of the project. For projects with specific requirements in computer software and hardware, the Group will source them on behalf of the customers.

Apart from the on-off installation fee, the Group also receives monthly income on its CMS services, which varies depending on the project requirements such as man hours needed, specifications of server setup, and the complexity of optional features selected.

The Group plans to use existing revenue models for all future products.

MAJOR PRODUCTS AND SERVICES**OAS**

The OAS is an area with products designed for the creation, management and distribution of rich media contents on-line, and the Group has been applying its proprietary technologies in the developments of different products, such as the eCards, i-tvc.net, i-tvServe.net and the CDMatrix, to meet different requirements.

The first product developed by the Group with CDT in OAS was the eCard, as Mr. Chan believed that such technology would be more marketable by demonstrating to end-users through electronic greeting card formats. As a result, Mr. Chan had decided to develop the eCards as the Group's first product. Mr. Chan, with his knowledge in computer science, developed and encoded the programme code by himself. Unlike the traditional electronic greeting cards (static images or animated slide shows with no programming involved), the Group's eCard incorporated the CDT that allowed the inclusion and distribution of advertisers' contents dynamically on a real-time basis. In addition, the eCard can support all rich media formats and permits advertisers to change the contents. As a result, advertisers can make use of the eCard to place product placement advertisements or to disseminate messages to end-users effectively. The Group's eCards consisted of two parts, namely the eCard itself (i.e. the visible part, being mainly the design) and the underlying technology to deliver the rich media contents (i.e. the non-visible part, programming codes).

The Directors consider that the eCards developed by the Group fall within the one focused line of business of the Group as the eCards serve as a distribution channel of rich media contents.

32days.com was launched by Mr. Chan in March 2000 as a character-based portal website to accommodate and advertise the eCard. In April 2000, Mr. Chan commenced the development of a new version of the 32days.com portal. The new portal was launched in June 2000. After the Group engaged with sina.com.tw in a co-branding agreement which expired in September 2001 with no revenue received (sina.com is currently one of the Group's customers on CMS for Office and other services with total sales of HK\$36,700 for the financial year ended 31st March, 2002 (HK\$nil for the financial year ended 31st March, 2001 and the three months ended 30th June, 2002)) and with a portal owned by a listed company in Hong Kong in a revenue sharing licensing arrangement of the Group's eCard which expired in September 2001 with no revenue received, the Group gained increasing publicity through these cooperations. 32days.com portal was therefore no longer required as a promotion tool for the Group. As such, 32days.com was transferred to 32days.com Asia in October 2000 at no consideration with no formal agreement signed. During the period from March 2000 to April 2002, the eCard played the role in promoting the use and the application of CDT developed by the Group and facilitating the designs of other products of the Group. Nevertheless, the role of eCard was subsequently replaced by i-tvc.net as the latter can support additional functions and possess better quality in terms of speed and memory requirement. Although the CDT of the eCard is still retained within the Group, the focus of the Group's OAS products has changed to i-tvc.net and i-tvServe.net, which are collectively known as the "i-tvc.net technologies". The design parts of the eCard were transferred out of the Group to 32days.com Asia at no consideration in April 2002 with no formal agreement signed. 32days.com Asia became dormant since then and all the design parts of the eCard have not been used or disposed of.

The i-tvc.net is a frontend proprietary technology designed for the delivery of short videos and TVCs on-line. It is an advanced application of CDT for the on-line rich media and content distribution. Unlike the eCard which is in the form of an electronic greeting card, i-tvc.net can form part of a webpage, button, pop-up window or as a stand-alone player. In addition, this patent pending technology allows i-tvc.net to become more effective in short video delivery because it includes the programme codes to access CDT located on the i-tvServe.net. Through this arrangement, client-side performance will improve and the content distribution capability will expand through an external server. Despite these disparities, i-tvc.net shares similar features with the eCards, such as interactivity, dynamic contents and compatibility with rich media formats.

In July 2001, the Group combined a self-developed advertising tool with a proprietary player for playing video on-line to create the i-tvc.net player. In January 2002, a new version of the i-tvc.net player was developed by the Group with the incorporation of a progressive interlacing video delivery technology and a function that supports the interactive contents to be delivered to targeted users (both are pending patents registrations in the United States).

The i-tvc.net, unlike streaming technologies which require backend servers to be engaged throughout the connection (usually the cause of un-desired flickering), releases the backend servers as soon as the contents are delivered. With the use of artificial intelligence, i-tvc.net uses the progressive interlacing video delivery technology to enhance the playback speed and the quality, whereas streaming technologies can only deliver such video quality as limited by the connection speed.

The Group, with the launch of the i-tvc.net technologies, will continue its business relationships with companies who were partners/customers of its eCard's product. Although no memorandum of understanding has been signed with these partners/customers yet, the Group is currently negotiating terms with a portal owned by a listed company in Hong Kong, a partner which the Group had cooperation in a revenue sharing licensing of the Group's eCard that expired in September 2001 with no revenue ever earned as the industry was hard hit by the economic downturn, that it would use i-tvc.net in its portals.

In addition, the Group has reached verbal agreement with the Hong Kong office of an on-line advertising agency in the world, a previous customer with a total sale to this customer on products/services including CMS for Office and rich media service produced by in-house CDMatrix on an one-off basis that amounted to HK\$22,675 for the financial year ended 31st March, 2002 and HK\$43,400 for the three months ended 30th June, 2002 (HK\$nil for the financial year ended 31st March, 2001), to promote and sell i-tvc.net products to its client.

The Group is also pursuing similar arrangement with sina.com.tw, a previous partner with cooperation in a co-branding agreement which was expired in September 2001 with no revenue earned due to bad economic condition and currently as a customer of the CMS for Office and other services with total sales of HK\$36,700 for the financial year ended 31st March, 2002 (HK\$nil for the financial year ended 31st March, 2001 and the three months ended 30th June, 2002). On the customer side, TVB.com (with total sale of HK\$13,500 for the financial year ended 31st March, 2002) has used eCard and is using i-tvc.net. Although there were only two sales of eCard to customers during the Track Record Period, the Directors confirm that neither the operation nor the financial status of the Group

has been or will be affected as a result of the transfer of the eCard's design parts to 32days.com Asia because the Group has continued to deliver its CDT through other successor products, such as i-tvc.net, that utilise a new CDT based on the one developed from the eCard, to serve customers in on-line rich media and content distribution.

The i-tvServe.net, a backend proprietary advertising serving system, was first developed in July 2001 by Mr. Chan and his research team to deliver on-line advertisements, such as buttons, banners, animated creatives and TVCs, at a high speed. The i-tvServe.net possesses requisition ability which allows content owners to obtain detailed information on the state and the effectiveness of campaigns on a real-time basis. As a result, on-line advertisers are able to achieve not only message delivery but also response collection which allows them to develop appropriate marketing strategies and campaigns.

The i-tvc.net technologies were first tested in TVB.COM on 28th March, 2002, which was viewed at about 132,000 times during the seven-days campaign period.

The CDMatrix is a tool designed with an objective to enable automatic creation, management and distribution of rich media contents by non-professional users.

In early 2000, Mr. Chan and his team found that it was a good opportunity to develop a tool to facilitate the creation and the management of rich media contents. It was necessary to develop such tool for the Group's use to better utilize the Group's resources by allocating non-technical staff to perform the content creation for the Group's client.

In September 2000, after completion of the diligent research, the feasibility studies and the pre-production steps, the Group started the development of the CDMatrix. The development has gone through two stages. In the first stage of development, CAIC was sub-contracted by the Group to provide of supportive functions, including programme encoding and testing of the CDMatrix. The CDMatrix was used for the development of rich media contents for the Group's customers of on-line advertising solutions. It also allows the automatic creation by non-professional users of rich media contents with animations, text effects, sound clips. Without the CDMatrix, such contents would have been produced manually by designers and programmers. The CDMatrix is currently in its second stage of development with a testing commercialised version that allows users to create rich media contents and to distribute such contents on-line using the Group's servers. This commercialised version is expected to be launched by the Group in September 2003.

The CDMatrix is a content distribution and multimedia creation tool. With on-line servers, the CDMatrix provides accessibility as well as simplicity in content creation and distribution as the interface is adaptable to multiple formats and applications. As a result, users of the CDMatrix can create, modify and distribute rich media contents targeting audiences in a relatively short period of time through computer servers.

Notwithstanding the above OAS products, the Group also has an in-house design team that offers themed website development and creative advertising services to ensure the quality of the total

packaged OAS. A customer can engage the Group to create a tailor-made themed website according to its specifications and requirements. As at the Latest Practicable Date, the Group had a total of eight R&D staff with an average of four years' experience in on-line advertisements creation and website development.

a) i-tvc.net technology

(i) *The i-tvc.net technology*

i-tvc.net is a proprietary player (available in Macromedia Flash format) to deliver short videos on the Internet progressively by interlacing frames (pending patent registration in the United States). It also supports interactive contents to targeted users or user groups (pending patent registration in the United States).

(ii) *Attractiveness of i-tvc.net*

The Directors believe that i-tvc.net will attract the market for the following reasons:

(a) *Flexibility*

i-tvc.net can be presented as part of the webpage, as a fly-in, or a stand-alone popup window in any browser or operating system that supports Macromedia Flash without downloading extra components to user computers. It supports motion clips, TVCs, Flash, mini-games, sound, buttons, banner, etc. of any size and dimension.

(b) *Progressive quality*

Because i-tvc.net employs the Group's progressive interlacing technology (pending patent registration in the United States), the quality of the movie will be enhanced gradually. As such, the longer the user stays on the page, the better the quality will be.

(c) *Cost effective*

i-tvc.net also offers cost effectiveness. Normally, a simple fixed fee will be charged unless i-tvServe.net servers are used in a project as well. In case of a server run project, a fixed set up fee together with a reasonable CPM (cost per thousand) impression fee will be charged depending on the campaign period and the complexity of the project. In addition, the less memory space required for i-tvc.net has saved costs in servers' set up.

(d) *Expandability*

The system configuration of i-tvc.net is flexible and can be expanded to handle campaign of any size with less than 1 working day set up time in many cases. New version for Pocket PC and mobile phones will be launched subsequently.

(e) *Target marketing*

When working with proprietary i-tvServe.net advertising serving system, i-tvc.net can deliver customisable content as well as putting interactive elements in multiple layers on top of the TVCs which are unique to each user. The i-tvServe.net server can also analyse data collected in a real time report for advertisers.

(iii) *Applications not suitable for i-tvc.net*

(a) *Long videos*

Since i-tvc.net is designed to optimise delivery of short videos, usually 60 seconds or shorter, it is not desirable to use i-tvc.net for long videos, such as full length music video, movie, TV programme, etc. For those applications, although interruptions and distortions may appear, streaming will still be a more suitable alternative to i-tvc.net.

(b) *Live broadcast videos*

i-tvc.net is not designed to handle live broadcast videos as the progressive interlacing delivery technology requires the entire video to exist for the determination of delivery parameters before sending the video to the i-tvc.net player. In the case of live broadcast video, there will be no file as the video contents are streamed through the streaming server directly to the streaming video player. Therefore, streaming will be a more suitable alternative to i-tvc.net.

The Directors do not believe these limitations will affect the popularity of i-tvc.net as it is not targeted to deliver long videos such as movies. Moreover, i-tvc.net can work with other popular streaming technologies in the market to create combined long and short video advertising campaigns.

(iv) *Competing products*

Currently, there are some products in the market competing with the Group's i-tvc.net and targeting at same group of users, albeit that the Directors believe that none of them has the same functionalities as compared with the i-tvc.net. For example, Zebus Group Inc. has developed Embedded Video Ads, Pop Up Video and In Stream Video Ads to deliver rich media contents through streaming technologies from RealMedia, QuickTime and Windows Media Player. These products allow up to six customisable, interactive buttons that offer special values surrounding the video player. Another competing product, the Superstitial series, is developed by Unicast Communications. Based on Macromedia Flash, this product shows pre-downloaded animated and/or video advertisements 20-30 seconds long in between web pages.

b) CDMatrix

In early 2000, Mr. Chan and his team found that it was a good opportunity to develop a tool to facilitate the creation and the management of rich media contents. It was also necessary to develop such tool for the Group's use as it would allow the Group to minimise its resources by allocating non-technical staff to perform the content creation part of the Group's client.

In September 2000, after completion of the diligent research, the feasibility studies and the pre-production steps, the Group started the development of the CDMatrix. The development has gone through two stages. In the first stage of development CAIC was sub-contracted by the Group to provide supportive functions including programme encoding and testing of the CDMatrix. The CD Matrix was used for the development of rich media contents for the Group's customers in on-line advertising solutions. It allows the automatic creation by non-professional users of rich media contents with animations, text effects, sound clips. Without the CDMatrix, such contents would have been produced manually by designers and programmers. The CD Martrix is in its second stage of development with a testing commercialised version that allows users to create rich media contents and to distribute such contents on-line by using the Group's servers. This commericalised version is expected to be launched by the Group in September 2003.

(i) *Introduction of the CDMatrix*

The CDMatrix is a tool designed with an objective to enabling computer assisted creation, management and distribution of rich media content by non-professional users. Instead of manually create and distribute rich media contents, the CDMatrix automates and simplifies the whole process. With on-line servers, the CDMatrix provides accessibility as well as simplicity in content creation and distribution as the interface is adaptable to multiple formats and applications. As a result, the users of the CDMatrix can create, modify and distribute the rich media contents to targeted audiences in a relatively short period of time through the servers.

(ii) *Features and niches*

(a) *Accessibility*

The commercialised verson of the CDMatrix is a web-based programme that allows users to access the programme through any operating system anywhere they like.

(b) *Easy to use*

CDMatrix is designed with built-in standard templates and effects to facilitate the creation of rich media contents by non-professional users. Nonetheless, the templates, though with pre-set format, can be modified easily to suit different requirements. In addition, the user-friendly interface reduces the learning time required for new users to get familiar with the whole application.

(c) *Adaptability*

The commercialised version of the CDMatrix is compatible with any operating system and support Macromedia Flash and can distribute rich media contents to any computer platform. CDMatrix also supports i-tvc.net format.

MAS

Fuelled by the increasing popularity of connected mobile devices, such as WAP phones and PDAs, the demand for the delivery of rich media contents is expected to surge. Unlike personal computer, the connected mobile devices allow greater mobility, thereby enhancing the potentials of MAS applications.

The i-tvc.net technologies are transferable to other platforms, such as connected mobile devices. By implementing these technologies in connected mobile devices, the accessibility of advertisements will be extended. Apart from advertising, CDT can also be applied to other multimedia, such as interactive gaming, movie, music industries, etc.

(i) *i-tvc.net for connected devices*

The Group has recently extended its i-tvc.net technologies to connected mobile devices. In April 2002, the Group started the development of i-tvc.net player on pocket PC powered PDAs. The first player was developed in the same month.

i-tvc.net is currently compatible with Pocket PC 2002-based connected devices, such as CASIO Cassiopeia E-200. For mobile phones, i-tvc.net for Phone will also be released later this year for Nokia 9210i mobile phone and the currently available 2.5G services already support full functions of the Group's i-tvc.net technologies.

(ii) *Technologies of i-tvc.net for connected devices*

Similar to their applications in on-line advertising, the Group's MAS products support the delivery of rich media contents through connected mobile devices. By employing technologies in i-tvServe.net, the MAS products allow connected mobile device users to reply by sending a special code through their mobile phones.

When a mobile user visits a WAP portal through a connected device, an i-tvc.net TVC will be loaded. If the user is interested and makes a response to the TVC, a request will be sent to the i-tvServe.net server, which in turn will trigger the database to disseminate the campaign information to that user exclusively.

For advertisers, the Group's MAS products enable advertisers to collect consumers' response to a particular advertisement. Each interaction is capable of containing text, images or music clips to be sent to the consumers' connected mobile devices. Future applications may include games and contests, e-coupon offerings, information requests, news updates, important reminders and alerts, ring tones and graphical information.

The i-tvServe.net also allows content owners to obtain detailed information on the state and effectiveness of campaigns through real-time statistics and report. As a result, adjustments can be made to campaigns when required. The enhanced functions of i-tvServe.net facilitates the production of a comprehensive campaign report detailing the precise nature of consumer interactions as well as the information gathered during the interactions, thereby allowing the advertisers to analyse the behaviour pattern of the users.

(iii) *Attractiveness of the i-tvc.net technologies for connected mobile devices*

The Directors believe that the i-tvc.net technologies for connected mobile devices will attract the market for the following reasons:

(a) *Mobility*

The i-tvc.net for Pocket PC or i-tvc.net for Phone make use of the mobile platform, to enable users to enjoy rich media contents such as TVCs, animations or sound clips anytime anywhere.

(b) *Progressive quality*

Because the i-tvc.net employs the Group's progressive interlacing technology (pending patent registration in the United States), the quality of the movie will be enhanced gradually. As such, the longer the user stays on the page, the better the quality will be.

(c) *Cost effective*

i-tvc.net also offers cost effectiveness. Normally, a simple fixed fee will be charged unless i-tvServe.net servers are used in a project as well. In case of a server run project, a fixed set up fee together with a reasonable cost per thousand impression fee will be charged depending on the campaign period and the complexity of the project. In addition, the less memory space required for i-tvc.net has saved costs in servers' setup.

(d) *Precise market targeting*

Mobile network not only supports location based broadcast but also holds a validated database of mobile subscribers. By analysing these data, the Group's MAS can target to users in certain areas or to a specific biographic group. This will result into more effective message delivery for content owners.

CMS

The CMS is a tool that allows staff from different departments within an organisation to create, edit, manage and publish a variety of web contents, such as text, graphics and video, etc., under a centralised set of rules, processes and workflows so as to ensure a coherent, validated website appearance.

In November 2000, the Group completed the development of its CMS products which are compatible with different system configurations for the needs of enterprises and portal operators of different sizes. The CMS products developed by the Group support cataloging and browsing of rich media contents, such as images, sound clips, videos and animations, with two standard versions offered — the CMS for Portal and the CMS for Office. The Group completed the development of various CMS modules in March 2001, such as Membership, Email Broadcasting, Forum and Chat Room. The first sale of the Group's CMS product was in August 2001 to an international airline operator.

(i) *Comparison of a DMS and a CMS*

As a result of the ever increasing amount of information that corporations produce in its daily operation, corporations begin to realise the urge to internally organise, rationalise and digitalise documentation such as word files, spreadsheets, PowerPoint presentations and etc. This urge has led to the creation of the Document Management Systems (DMS), a software for manufacturing and streamlining document in an office.

Traditionally, DMS are designed to store and categorise large volume of information. While DMS are more concerned about the entirety of documents, the contents of the documents are ignored. In view of this, CMS has emerged to compensate the shortcomings of DMS. CMS allows dynamic update of information, as well as real-time publishing through the intranet or the Internet. Moreover, it permits a large number of users/client to access and use the information. In contrast, DMS only allows certain authorised users to access the information in a fixed location, with stored information unalterable.

(ii) *CMS developed by the Group*

In November 2001, the Group completed the development of its CMS products, which are customisable to different configurations of different customers. The two standard pre-configured versions offered are the CMS for Portal and the CMS for Office.

(iii) *CMS for Portal*

The CMS for Portal is designed for portal websites with different features, such as load-balance configuration, rich media cataloging and browsing, i-tvc.net support, video streaming, automated content update, promotion campaign, eShop, SMS connectivity, advertising serving system, chat room, forum, polling system, webmail, etc.

(iv) *CMS for Office*

The CMS for Office is designed for enterprises with different features, such as project collaboration, forum, document library, webmail, rich media cataloging and browsing, database connectivity, remote access, calendaring, web front, etc. The enhanced version with functions incorporated from i-tvc.net technologies is expected to be launched in December 2002.

The CMS products developed by the Group are equipped with an end-to-end capability that allows information from backend content management to the presentation of that content in on-line platforms, such as a web browser or connected mobile devices.

(v) *Attractiveness of CMS*

The Directors believe that CMS will attract the market for the following reasons:

(a) *Data integrity*

CMS enables on-line information to be up to date, consistent and of a high quality. As CMS re-uses content across multiple websites or pages to simplify information management process,

it can help to reduce customer dissatisfaction or legal issues as a result of inconsistent or incorrect information. Furthermore, it can increase the value perception of the information provided.

(b) *Enhance productivity*

The automatic process will save time and allow webmasters to stay focused on areas such as interface enhancements or value added functionalities. This will result in more appropriate use of the web team, thereby lowering the production costs.

(c) *Decentralised content creation*

CMS enables global contribution of content and information by allowing any authorised user to edit/update content in a website. This will eliminate the bottleneck in the traditional website setup and with the logging feature, authorised users are able to take ownership/responsibility for the information they provide.

(d) *Centralised workflow, approval processes and rules*

CMS enables decentralised contribution without the loss of centralised process and it provides an effectively controlled flow of content.

(e) *Speedy update*

CMS allows authorised user to change content in real-time without delay and the content edit/updated can be accessed as soon as the users enter the CMS.

(vi) *IT consultation and infrastructure enhancement for CMS customers*

The Group started providing IT consultation and infrastructure enhancement services for its CMS customers in July 2001 which include hardware and software installation, computer system integration, system programming, server collocation, server building, computer system building, computer network building and etc.

The Group charges its customers for IT consultation and infrastructure projects on either a time and material costs basis or a fixed fee basis.

SALES AND MARKETING

The Group is currently not engaged actively in marketing campaigns and is of the views that its services can be promoted through business reputation. Nonetheless, the Group had three sales and marketing staff members to devise and implement marketing strategies as at the Latest Practicable Date. The sales team would contact potential or recurring customers directly, mainly on-line/traditional advertising agencies or infotainment providers in Hong Kong, to perform demonstration of its products. While promoting the new products, the sales team would also collect feedback from customers to facilitate performance evaluation, development of new products and enhancement of existing products, in order to meet the changing needs of the customers.

From time to time, the Group also organises joint marketing efforts with business partners and resellers which in the past included a portal owned by a listed company in Hong Kong, a previous partner with cooperation in a revenue sharing licensing of the Group's eCard that expired in September 2001 with no revenue received and urphoto.com, etc. These marketing efforts include functions and activities, such as roadshows and on-line promotions.

For the First, the Second and the Third Relevant Period, the sales and marketing expenses were approximately HK\$146,000, HK\$176,000 and HK\$48,000 respectively, representing 49 times, 4.7% and 5.8% of the total turnover of the Group, respectively.

CUSTOMERS

For each OAS, MAS, CMS, IT consultation and infrastructure project, the Group enters into a contract with its customers setting out the specifications of the services to be provided and the terms under which those services will be provided. Generally speaking, the contract sum, in respect of a range of 28% to 35% of the projects, is payable in two installments, with an upfront initial deposit of approximately 30% to 50% of the contract sum, and the remaining balance will be payable upon completion of the project. Except for the initial deposit, which is payable, upon entering into the contract, the Group's customers are usually granted with a credit period ranging from 30 days to 90 days for each billing. Nonetheless, a 180-day credit period may also be granted to customers with good business relationships and satisfactory repayment history.

In relation to advertising, themed websites and banner creation services, the Group enters into a contract with its customers setting out the contents, number, features and dimension to be created. The Group usually issues invoices immediately after the signing of agreements and the customers are normally granted with a credit period of 30 days for each billing.

The Group generally extends credit terms to its customers based on the length of business relationship with the customer, its payment history, its background and its financial strength. Most of the Group's customers are carefully selected and reviewed so as to minimise the risk of bad and doubtful debts to the Group.

Individual project team will report regularly to the Group's sales and marketing department on the progress of OAS, MAS and CMS projects. Based on this information, the sales and marketing department will, according to the terms of the relevant contract, co-ordinate billing with the accounting department. Debtors aging reports are prepared by the accounting department and any amount outstanding from the customers will be followed up by the sales and marketing department. During the Track Record Period, the Group has filed two claims on disputes of services provided to two customers with a total amount of approximately HK\$58,000 and they were still pending for court judgement as at the Latest Practicable Date. Although the Directors have confidence in recovering the full amount, full provisions were made in the accounts of the Group.

BUSINESS

For the year ended 31st March, 2001, the sales of the Group were all in Hong Kong dollars and were all settled on 30 days credit term. The Group has provided on-line advertising solutions to only one customer, YesMobile, based on the memorandum of understanding signed on 21st December, 2000.

For the year ended 31st March, 2002, the sales of the Group were all in Hong Kong dollars and were settled on cash-on-delivery basis, 15 to 30 days credit terms, and the advance payment method. The largest customer, 32days.com Asia with contract started in September 2001 and the five largest customers of the Group accounted for approximately 29% and 85%, respectively, of the Group's total turnover.

For the three months ended 30th June, 2002, the sales of the Group were all in Hong Kong dollars and were settled on cash-on-delivery basis, 15 to 30 days credit terms, and the advance payment method. The largest customer, 32days.com Asia with contract started in September 2001 and the five largest customers of the Group accounted for approximately 36% and 89%, respectively, of the Group's total turnover. The following table is a summary of the five largest customers for each of the two years ended 31st March, 2002 and the three months ended 30th June, 2002:

	Year ended 31st March, 2001 HK\$	Nature of services HK\$	Terms	Outstanding at 30th September, 2002
A mobile advertising solution provider	2,500	MAS (WAP Card)	Net 30 days	Nil
	Year ended 31st March, 2002 HK\$	Nature of services HK\$	Terms	Outstanding at 30th September, 2002 HK\$
32days.com Asia (<i>Note</i>)	1,090,000	CMS for Portal	Net 30 days	Nil
A PRC based garment manufacturer	857,000	CMS for Portal OAS (i-tvServe.net and i-tvc.net)	Cash	Nil
A healthfood company	800,000	OAS (i-tvServe.net and i-tvc.net)	Installment	800,000
Owner of the official portal of a famous Asian pop star	250,340	CMS for Portal OAS (Services using CDMatrix)	Net 30 days	131,000
A worldwide music company	222,200	CMS for Portal	Net 30 days	12,000

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	Three months period ended 30th June, 2002 HK\$	Nature of services HK\$	Terms	Outstanding at 30th September, 2002 HK\$
32days.com Asia (<i>Note</i>)	300,000	CMS for Portal	Net 30 days	Nil
A PRC based garment manufacturer	140,000 <u>60,000</u> 200,000	CMS for Portal OAS (i-tvc.net)	Cash	Nil
A PRC based home fashion trading company	100,000	CMS for office	Net 30 days	Nil
A worldwide music company	90,000	CMS for Portal	Net 30 days	Nil
Hong Kong office of an on-line advertising agencies in the world	34,400 <u>9,000</u> 43,400	CMS for office OAS (i-tvc.net)	Net 30 days	43,400

Note: Please refer to "Connected transactions" for details of 32days.com Asia.

During the Track Record Period, the Group provided OAS (i.e. sale of the eCard, i-tvc.net, i-tvServe.net and services with the CDMatrix), MAS (i.e. the WAP Card) and CMS (i.e. the CMS for Portal and Office) services to customers.

The following table is an analysis of products sold to the 27 and 15 customers for the year ended 31st March, 2002 and the three months ended 30th June, 2002:

Name of catagories	Name of products	Number of customers		Total revenue generated by the products	
		Three months		Three months	
		Year ended 31st March, 2002 (<i>Note</i>)	ended 30th June, 2002 (<i>Note</i>)	Year ended 31st March, 2002 HK\$	ended 30th June, 2002
OAS:	eCards	3	0	53,167	0
	CDMatrix	6	0	146,005	0
	i-tvc.net	5	4	820,500	90,250
MAS:	WAP Cards	1	0	12,500	0
	i-tvc.net for PDA	0	0	0	0
CMS:	CMS for Office	19	5	662,781	151,600
	CMS for Portal	<u>4</u>	<u>6</u>	<u>2,086,500</u>	<u>580,007</u>
Total:		<u>38</u>	<u>15</u>	<u>3,781,453</u>	<u>821,857</u>

Note: As a customer might purchase more than one product from the Group, the total number does not equal to 27 and 15.

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The contract entered into with 32days.com Asia was completed in July 2002 without renewal.

As at 30th June, 2002 the trade receivable from customers after provision amounted to HK\$998,000 and 7% were settled up to the Latest Practicable Date (up to 31st October, 2002 was 92%).

During the Track Record Period, as a business strategy, the Group signed memoranda of understanding with players in the industry in respect of licensing and promoting its products and services, albeit that these memoranda of understanding did not generate significant amount of turnover. Nevertheless, the Group will continue to procure business with these players following the expiry of the memoranda of understanding. Indeed, there are cases that following the expiry of the relevant memoranda of understanding, the Group has no further business with certain players up to the Latest Practicable Date.

The Group has signed memoranda of understanding (“MOU”) with various parties below and none of them is a related party to the Group (with details under section “Active business pursuits”). The following table is a summary of the current status of all MOU signed:

MOU/Agreement HK Concepts Co/ Art Global Term Date	Terms	Role of the Group	Role of contracting party	Nature of products and services provided	Total revenue generated (Up to June 2002)	Status as at Latest Practicable Date
Ssang Yong Corporation 14th August, 2000 Signed by HK Concepts Co (No fixed term)	Revenue sharing (Case by case) for licensing the Group’s eCards (with CDT)	Licensor — No additional work other than supplying the eCards (with CDT) already developed	Licensee — Use the eCards (with CDT) in its portal site in Korea to collect advertising fees	eCards (with CDT) licensing	Nil	Expired
Ssang Yong Corporation 8th January, 2001 Signed by HK Concepts Co (No fixed term)	Updated MOU to the one dated 14th August, 2000 to set the service launch day to be 1st March, 2001	N/A	N/A	N/A	N/A	Expired
sina.com in Taiwan 10th September, 2000 Signed by HK Concepts Co (One year)	The Group provides eCards (with CDT) in exchange for free promotion for the Group at sina.com.tw	Licensor — No additional work other than supplying the eCards (with CDT) already developed	Licensee — Use the eCards (with CDT) in its portal sites to gain attraction. Provide free on-line advertisements to the Group	eCard (with CDT) licensing and co-promotion	N/A	Expired for the eCard arrangement. Currently a customer of the Group on case by case basis

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MOU/Agreement HK Concepts Co/ Art Global Term Date	Terms	Role of the Group	Role of contracting party	Nature of products and services provided	Total revenue generated (Up to June 2002)	Status as at Latest Practicable Date
sina.com in Taiwan 11th September, 2000 Signed by HK Concepts Co (One year)	To include sina.com in the Agreement dated 10th September, 2000	N/A	N/A	N/A	N/A	Expired for the eCard arrangement. Currently a customer to the Group on case by case basis
A portal owned by a listed company in Hong Kong 29th September, 2000 Signed by HK Concepts Co (One year)	Revenue sharing (50% after cost) for licensing the Group's eCards (with CDT) in the portal owned by a Hong Kong listed company in Hong Kong and the PRC, which used the eCards (with CDT) to sell advertisements.	Licensor — No additional work other than supplying the eCards (with CDT) already developed	Licensee — Use the eCards (with CDT) in its portal sites in Hong Kong and the PRC to collect advertising fees	eCards (with CDT) licensing and co- promotion.	Nil	Expired. In negotiation of a new contract with the Group to use i-tvc.net, an updated product from the Group
YesMobile (HK) Limited 21st December, 2000 Signed by HK Concepts Co (One year)	Revenue sharing (70%) for licensing the Group's eCards (with CDT) and the WAP Cards to target client	Licensor — Supplying the eCards (with CDT) and the WAP Cards developed by the Group	Licensee — Use the eCards (with CDT) and the WAP Cards in its portal sites in Hong Kong and China to collect advertising fees	eCards (with CDT) and WAP Card licensing	HK\$15,000	Expired
A mobile service operator in Hong Kong 1st December, 2000 Signed by HK Concepts Co (One year)	Revenue sharing (depends on mobile service charge) for licensing the Group's WAP Cards to the network of a mobile service operator in Hong Kong	Licensor — Supplying the WAP Cards developed by the Group with ability to include advertising contents dynamically	Licensee — Use the WAP Cards in its portal sites in Hong Kong and the PRC to collect mobile service fees and advertising fees	WAP Card licensing	Nil	Expired. Is approaching for a new contract with the Group to use i-tvc.net for its 3G service

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MOU/Agreement HK Concepts Co/ Art Global Term Date	Terms	Role of the Group	Role of contracting party	Nature of products and services provided	Total revenue generated (Up to June 2002)	Status as at Latest Practicable Date
Hachette Filipacchi 22nd January, 2001 Signed by HK Concepts Co (One year)	Revenue sharing (40-60%) for the Group to apply Hachette Filipacchi's Car & Driver magazine photos in eCards (with CDT) and WAP Cards	Use Car & Driver photo and apply to the Group's eCards and WAP Cards and sub-license to other parties	Provide Car and Driver magazine car photos	Licensing	Nil	Expired
A well known model agency 19th February, 2001 Signed by HK Concepts Co (One year)	Revenue Sharing (40-60%) for the Group to apply photos from the model agency in eCards (with CDT) and WAP Cards	Use model photo and apply to the Group's eCards and WAP Cards and sub-license to other parties	Provide model photos	Licensing	Nil	Expired
Universal Music Limited 1st January, 2002 Signed by Art Global (One year)	HK\$30,000 per month to the Group for 12 months to use the Group's CMS for Portal	Provide CMS for Portal and maintenance service for 12 months	Pay HK\$30,000 per month and provide contents in digital format	CMS for Portal	HK\$180,000 (Amount per this agreement only)	In effect
Owner of the official portal of a famous Asia pop singer 18th December, 2001 Signed by Art Global (One year)	HK\$39,500 per month to the Group for 12 months to use the Group's CMS for Portal	Provide CMS for Portal and maintenance service for 12 months	Pay HK\$39,500 per month and provide contents in digital format	CMS for Portal	HK\$289,000	Expired

As at the Latest Practicable Date, none of the Directors, their respective associates nor any Shareholder (who or which to the knowledge of the Directors will be interested in more than 5% of the issued share capital of the Group immediately after the Placing and the Capitalisation Issue, without taking into account the exercise of the Over-allotment Option and the Shares which may be taken up under the Placing) had any interest in any of the Group's five largest customers for the First, the Second and the Third Relevant Period, except for 32days.com Asia, of which details are set out in the "Connected transactions" in this prospectus.

SUPPLIERS

Because of the fact that the Group is mostly using self-developed technologies to develop its products and services, the Group has no major suppliers in relation to its products and services.

Nonetheless, it had once engaged CAIC to assist the Group in programme encoding and testing for a total amount of HK\$4,856,000 in the First Relevant Period. Computer equipment, design tools and software are required for the Group in its OAS, MAS and CMS services and they are all purchased from the Independent Third Parties. When the Group receives a contract to undertake a project, the Group will prepare a list of items required, obtain quotation and then place orders for the specific items for the project. However, as all of these purchases are freely available from a range of suppliers and are not specific to any particular customer or project, there is no disclosure of the largest and the five largest suppliers in each of the First, the Second and the Third Relevant Period according to applicable requirements under of the GEM Listing Rules.

During the Track Record Period, all of the Group's purchases of computer equipment, design tools and software used in its business were made in Hong Kong dollars and were settled principally by way of cash on delivery, cheque or accounts with 30 days' credit terms.

As at the Latest Practicable Date, none of the Directors, their respective associates nor any Shareholder (who or which to the knowledge of the Directors will be interested in more than 5% of the issued share capital of the Group immediately after the Placing and the Capitalisation Issue, without taking into account the exercise of the Over-allotment Option and the Shares which may be taken up under the Placing) had any interest in any of the Group's five largest suppliers during the First, the Second and the Third Relevant Period.

QUALITY CONTROL

The Group carries out quality control procedures from the start of the project to the successful implementation of the proprietary applications into the customers' business.

A project manager is responsible for the creation, development and regular review of the project plan. Apart from the review at every milestone, the project manager will also check for any slippage due to, amongst other factors, scope or strategy change.

Depending on the size of the project, the Group may appoint a staff member who has no involvement in project execution as a quality assurance person to oversee the overall quality of the project and to ensure that all appropriate procedures are adhered to, all deliverables conform to standards, and that the final product is stringently tested.

CUSTOMER SERVICES

The Group, as part of its management belief, places significant emphasis on the provision of comprehensive and efficient after-sale maintenance services as well as technical support to its customers. Although the Group does not offer explicit warranty, it will continue to provide technical support and maintenance services to its customers. The Group will also provide free upgrade services to those who have purchased the licence of the Group's proprietary applications. Normally, the Group will test-run the programme before delivery to customers and will provide 20-30 hours of technical supports to each customer.

COMPETITION

The Group operates in a highly competitive market which is subject to rapid technological change and faces competitors with diverse backgrounds and sizes either from Hong Kong or overseas.

In recent years, the markets for on-line rich media and content distribution have grown significantly because of the increasing popularity of the Internet for businesses communication, marketing and information dissemination to customers, suppliers, business partners and employees. As such, the Group may face competitions particularly in the following areas:

- established IT companies with substantially greater resources than the Group and with products bearing similar functions (or for those who do not yet have competing products, they may develop similar products to compete with the Group), such as CMS products; and
- other competitors who adopt a low-price strategy in order to attract customers, particularly in IT consultation and infrastructure implementation.

The Directors believe that most of the competitors offering similar products within the OAS, MAS and CMS are companies in the United States and Europe. While most of these competitors position themselves in these regions, the Group will establish in Asia Pacific with a focus on Hong Kong, the PRC and Taiwan. The following table is a summary of the competing products of the Group:

Product Areas**Competitors**

On-line Advertising Solutions (OAS)

Advertising Servng (*i-tvServe.net*):**RealNetworks, Inc.** — Maker of RealServer, and RealPlayer**Fastclick.com Inc.** — Maker of Fastclick AdServer**Mediaplex, Inc.** — Maker of MOJO Adserver**Video Delivery (*i-tvc.net*):****RealNetworks, Inc.** — Maker of RealServer, and RealPlayer**Apple Inc.** — Maker of QuickTime**Unicast Communications Corp.** — Maker of Superstitial

Mobile Advertising Solutions (MAS)

The Mobile Channel — Mobile advertising solutions provider**SkyGo, Inc.** — Mobile advertising solutions provider**Airvertise, LLC** — Mobile advertising solutions provider

Product Areas

Content Management Solutions (CMS)

Competitors**CrownPeak Technology** — Maker of Advantage CMS**Octigon, LLC** — Maker of Octane8**PaperThin, Inc.** — Maker of CommonSpot

The Directors consider that the Group has the following key principal strengths:

- having a R&D team committed to the development of value-added and customised products in OAS, MAS and CMS;
- having a management team with strong experience and expertise in on-line rich media and content distribution businesses;
- having equipped with proprietary applications, such as i-tvc.net and i-tvServe.net (both are pending patent registrations in the United States);
- having the capability to enhance the value of on-line advertising by data requisition ability of the Group's i-tvc.net technologies; and
- committing to product and service quality that reinforce the relationships with its customers.

32days.com Asia had once been engaged in entertainment portal business after it was removed from the Group in April 2002. Nonetheless, it was not directly in competition with the Group's business and is inactive and ceased to have any major operations such as updating to the web contents or any sales activities since April 2002. Save as disclosed in this prospectus, none of the Directors, Initial Management Shareholders and the substantial shareholders of the Company and their respective associates (taking no account of any Shares that may be taken up under the Placing) is interested in any business which competes or may compete with the business of the Group, or has any discloseable conflict of interests with the business of the Group. Moreover, each of Mr. Chan and City Pacific Ventures Limited has given an undertaking in favour of the Company that no business in competition with the Group's business will be carried out by each of them. Details of the undertaking are set out under "Summary of material contracts" in Appendix IV to this prospectus.

INTELLECTUAL PROPERTY

The Group has applied for the patent registrations of two technologies in the United States on 8th February, 2002, namely (i) proprietary i-tvc.net and (ii) i-tvServe.net advertising serving system. The Group has also registered eight domain names throughout the business activity. Details of the patent applications and the domain names are set out under "Intellectual property rights of the Group" in Appendix IV to this prospectus.

RESEARCH AND PRODUCT DEVELOPMENT

The Group places strong emphasis on R&D of new technologies to accommodate for the changing needs and demands of advanced rich media delivery requirements, with focus on i-tvc.net, MAS and CMS technologies.

During the Track Record Period, CAIC was engaged by the Group to carry out various supporting functions in the development of the content distribution tool, CDMatrix and other on-line advertising tools. Apart from these products, all other products were developed in-house by the Group. At the time when the Group engaged CAIC, the Group had a human resources policy to better focus its resource in business development and CAIC was therefore engaged to perform supporting functions, such as coding, testing and manufacturing of the product based on the design and instructions from the Group. After the establishment of Art Global, the Group changed its human resources policy and engaged some of the CAIC's employees as contractors and employees. The Group has hired these contractors as full-time employees and will not rely on external parties for R&D in the future.

As at the Latest Practicable Date, the Group had a team of eight professionals involved in the R&D in Hong Kong. All these team members are experienced in software programming and development, mobile technology and database management technology. The R&D team also masters the advanced client/server database and software engineering tools.

For the First, the Second and the Third Relevant Periods, R&D expenditure were approximately HK\$5,991,000, HK\$867,000 and HK\$184,000, respectively, of which only HK\$4,856,000 were paid to CAIC in the First Relevant Period. No R&D expenditure was capitalised during the Track Record Period and a breakdown of the R&D expenditure charged is as follows:

	Three months ended		
	Year ended 31st March,		30th June,
	2001	2002	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Consultancy fee	—	52	—
Website charges	53	3	—
Software development fee	5,497	—	35
Staff costs	<u>441</u>	<u>812</u>	<u>149</u>
	<u>5,991</u>	<u>867</u>	<u>184</u>

The consultancy fee was paid to two consultants, who were Independent Third Parties, for their consultancy services in respect of market research.

Software development fee mainly represented amount paid to CAIC for carrying out programme encoding, testing, market research and other supporting functions in the development of CDMatrix (details of the service contracts with CAIC are set out under "Connected transactions" below). In addition, there was a service fee of HK\$173,000 paid for outsourced design works for the use in the development of new features in client projects for the year ended 31st March, 2001.

CONNECTED TRANSACTIONS**Discontinued connected transactions**

During the Track Record Period, the Group entered into the following connected transactions:

Contractual arrangement with CAIC

During the First Relevant Period, the Group sub-contracted CAIC to provide assistance to the Group in programme encoding and testing of the Group's products. CAIC was dissolved on 6th February, 2002 under the prevailing applicable laws because shareholders of HK Concepts International considered not necessary to maintain the business operations in the United States.

CAIC was engaged in the business of software development. As far as the Directors are aware, all of the projects undertaken by CAIC were on contractual basis and there was no product marketed under CAIC's own name. Client of CAIC included WebServe, Inc., Tribble Creative Group, Stone Soup Marketing, Inc., Choice Translating & Interpreting, Inc., Carolina Asia Chamber of Commerce, JS Lee CPA, Texmac, Inc., etc.

As at the Latest Practicable Date, the Group entered into six service contracts with CAIC pursuant to which CAIC was engaged by the Group to develop certain tools for creation of on-line rich media and content distribution. Mr. Chan believed that CAIC could carry out the supportive functions such as programme encoding and testing at lower cost and at faster cycle due to its expertise in software design and development.

The details of the six contracts are as follows:

Products/ Work Delivered	Detail Deliverables	Fees (US\$'000)	Contract Date	Completion Date
1 CDMatrix Feasibility Research and Initial Interface Design	The finished research report showing that CDMatrix was possible to make with the available technologies at that time. The report was written in documentation format and the Initial Interface design was written in Adobe Photoshop psd format.	115	Sept 2000	Oct 2000

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Products/ Work Delivered	Detail Deliverables	Fees (US\$'000)	Contract Date	Completion Date
2 CDMatrix Second Stage Research — Designing and testing of tools to create interface	The finished research report on the suitability of the development tools designed by the Group for CDMatrix interface creation was delivered in documentation format. The testing report on the development tools coded was provided in documentation format.	115	Oct 2000	Nov 2000
3 CDMatrix Web Interface Design and Creation with database backend server	The finished web interface design for use with CDMatrix was setup on a server provided by the Group based on the server requirement list prepared by CAIC.	115	Nov 2000	Dec 2000
4 Integrating of CDMatrix Tools and Web Interface and Testing	The integrated CDMatrix with Web Interface was setup on a server provided by the Group (based on the server requirement list prepared by CAIC). The testing report which shows CDMatrix was successfully tested to handle rich media content creation was provided in documentation format.	115	Dec 2000	Jan 2001
5 Online Advertising Industry Review and Banner/Button Ad Template Design	The industry review report showing major market participants was provided in documentation format. The finished templates for banner/button advertisements were in Adobe Photoshop .PSD format and Macromedia Flash .FLA format.	120 Total US\$580 (equal to approximately HK\$4.5 million)	Feb 2001	Mar 2001

* All the tools were developed for in-house use and therefore only completion dates exist but no product launch date.

All of the above were principally handled by Mr. Kang Tae Wook, Mr. Jeon Sang Hoon and Mr. Fu Siu Yau of CAIC, all of them joined the Group after completion of the above projects, together with other senior consultants of CAIC, namely Mr. Todd Reich, Ms. Elizabeth McNeff and Mr. René Rosales and other supporting staff. CAIC charged the Group based on the time cost incurred on this project. All of the six contracts were ended on 15th March, 2001. In addition, CAIC purchased design tools and software amounting to HK\$332,300 on behalf of the Group in October 2000 and February 2001 with invoice charged against the Group the same amount as disbursements. Save as disclosed therein, there were no other business transactions between CAIC and members of the Group.

Arrangement with 32days.com Asia

Certain background information on 32days.com Asia

32days.com Asia was originally owned by Mr. Chan and HK Concepts Co since its incorporation date and its set up was solely for the purpose of operating the 32days.com portal to accommodate and advertise the eCard of the Group. In June 2001, HK Concepts Co agreed that the ownership of 32days.com Asia would be transferred to Mr. Chan at the same time the business transfer agreement took place. Nonetheless, after the transfer agreement was effective on 23rd June, 2001 and was signed on 30th August, 2001, Mr. Chan focused on the business development of the Group and did not implement the transfer immediately. As Mr. N. H. Chan was interested in investing in 32days.com Asia in November 2001 to support Mr. Chan's business in entertainment portal, Mr. Chan therefore transferred 32days.com Asia, along with the shares registered under the name of HK Concepts Co (to which he was entitled and should have been registered under his name), to Yorkmax Investments Ltd. temporarily in December 2001 until a new holding company is formed. Subsequently, Mr. N. H. Chan decided not to further invest in 32days.com Asia. As the new holding company has never been established, 32days.com Asia was subsequently transferred from Yorkmax Investments Ltd. to Mr. Chan in April 2002. Thus, 32days.com Asia is a connected person (as such term is defined under the Listing Rules) of the Company.

Transactions between 32days.com Asia and Art Global

On 15th September, 2001, the Group entered into an agreement with 32days.com Asia pursuant to which Art Global would provide site management and content management services using the CMS for Portal, including continuous upgrading of new modules for the CMS for Portal during the service period as well as managing the contents for distribution using the CMS for Portal's administration modules, for a period of 10 months at HK\$100,000 per month (total consideration: HK\$1,000,000) starting from 15th September, 2001, being treated as sales revenue for the CMS product line of the Group. This consideration was agreed based on the complexity of the project and the number of hours required for the completion of the project and the standard hourly rate charged by the Group against other independent customers. The Directors confirm that this one-off transaction was based on normal commercial terms negotiated between the parties at the same rate applied to other Independent Third Parties and the consideration represented a genuine consideration for the service provided by the Group. The Sponsor has reviewed the relevant terms on samples of these transactions and has compared them with those applied to Independent Third Parties. Based on its understanding, the Sponsor is also of the view that the transaction, which included the continuation of the CMS service contract with 32days.com Asia from April 2002 to June 2002 even 32days.com portal was inactive

since April 2002, arose from the ordinary course of business of the Group and that the considerations were reasonable and agreed on normal commercial terms, which represented genuine considerations for the services provided by the Group. The provision of the services was duly completed with income recognised based on services rendered on each month for the period from September 2001 to June 2002 with all balances settled in June 2002.

Although the 32days.com portal became inactive since April 2002, the Group continued to provide content management services through the use of CMS for Portal. The Group was commissioned to develop a new portal for 32days.com as well as to maintain and manage the contents on the portal using the Group's CMS for Portal until the end of the contract. A base portal which included features of sending and receiving eCards with membership management was first developed during the first two months of the services contract. While the portal was operative, the remaining eight months were used to develop and update new and existing modules, such as calendaring, lunar calendaring, scheduling, address book, personal eCards management, webmail system, character based mail card system, file download and upload management, event management system, multi-language database module, advertising management system, news system, forum system, rich media browsing module, link and directory module, on-line shopping system, payment module, etc. Each of these modules worked with the other coherently and should the project be terminated before completion of all these modules, the new features of the portal would not function properly. At the time of 32days.com became inactive in April 2002, most of the features were completed, except lunar calendaring, event management system, multi-language database module, advertising management system and payment module. 32days.com Asia did not request to terminate the service agreement as the then owner of the 32days.com portal (with details set out in the "Definitions" of this prospectus) considered that such arrangement could be more cost effective by completing the whole development and upgrading of the portal at once, which represented about 21% of the total amount of the service fee that would be required to be paid for completion.

Apart from this, the Group also sold CMS for Portal to 32days.com Asia, with a total income of HK\$390,000 in September 2001. This consideration included a setup fee plus an hourly fee which was determined based on the complexity of the project, with the hourly rate derived from the standard hourly charge of the Group. The Directors confirm that this one-off transaction, which would not take place in the future, was also based on normal commercial terms negotiated between the parties at the same rate applied to other Independent Third Parties. The Sponsor, based on its understanding, is also of the view that the transaction arose from the ordinary course of business of the Group and that the considerations were reasonable and agreed on normal commercial terms, which represented genuine considerations for the services provided by Art Global.

The Group also sold this product to other independent third parties. For example, the sale in the fourth quarter of 2001 to a garment manufacturer in the PRC amounted to HK\$857,000, as the CMS for portal sold was more sophisticated and with more customised modules.

As a result of the one-off sales arrangement with 32days.com Asia mentioned above, the total amount of HK\$1,090,000 and HK\$300,000 have been included as revenue earned in the Group's turnover and profit for the year ended 31st March, 2002 and the three months ended 30th June, 2002.

According to the financial statements of 32days.com Asia from its date of incorporation up to 31st March, 2002, and for the period from 1st April, 2002 to 30th June, 2002, 32days.com Asia earned no revenue but incurred total expenses of HK\$1,098,000 and HK\$301,000, including payment of HK\$1,090,000 and HK\$300,000 which has been recorded as income of the Group.

32days.com Asia had once been engaged in entertainment portal business after it was removed from the Group in April 2002. Nonetheless, it was not directly in competition with the Group's business and is inactive and ceased to have any major operations such as updating to the web contents or any sales activities since April 2002. Save as disclosed in this prospectus, none of the Directors, Initial Management Shareholders and the substantial shareholders of the Company and their respective associates (taking no account of any Shares that may be taken up under the Placing) is interested in any business which competes or may compete with the business of the Group, or has any discloseable conflict of interests with the business of the Group. Moreover, each of Mr. Chan and City Pacific Ventures Limited has given an undertaking in favour of the Company that no business in competition with the Group's business will be carried out by each of them. Details of the undertaking are set out under "Summary of material contracts" in Appendix IV to this prospectus.

At the initial development stage of the Group, the provision of the eCards for product placement advertising and sponsorship as mentioned above was part of the relevant business of the Group with other CDT development businesses. Nonetheless, the provision of the eCards for product placement advertising and sponsorship was replaced by other successive CDT products of the Group as they are equipped with better functionalities. As such, the Group will not renew this contractual arrangement with 32days.com Asia. Moreover, the Group will also not renew the site management and content management services with 32days.com Asia.

Assignment of Trade Name and Trademark Sale

On 1st August, 2001, Mr. Chan executed the Assignment of Trade Name and Trademark Sale whereby Mr. Chan assigned to Art Global and its successors and assigns, all Mr. Chan's rights, title and interest in and to the trade name Design Team One, DTI, CAI Concepts, together with any logos, art work or design used by Mr. Chan in connection with the name, whether in the form of advertising, letterhead, business cards, signs or in any other form or context. Mr. Chan confirmed that such assignment is free of charge.

Assignment of patent application from Mr. Chan to the Group

On 23rd April, 2002, Mr. Chan executed an assignment of application (particulars of which are set forth under "Summary of material contracts" in Appendix IV to this prospectus) in favour of i-tvc.net Limited whereby Mr. Chan had assigned his entire right, title and interest in the patent applications (particulars of which are set forth under "Intellectual property rights of the Group" in Appendix IV to this prospectus) to i-tvc.net Limited for a consideration of US\$10,000, being the cost for the patent applications. Such consideration was not settled as at the Latest Practicable Date.

Provision of office premises

During the period between August 2001 and April 2002, Art Global leased from Mr. Chan office premises located at 1104, Emperor Group Centre, Wan Chai, Hong Kong free of rental (ratable value: HK\$219,000 per year) as its office. Art Global was responsible for payment of management fees and rates and other outgoing expenses in respect of the office premises to the Independent Third Parties.

Save as disclosed above, the Directors confirm that there were no other connected transactions (as such term is defined under the GEM Listing Rules) of the Company during the Track Record Period. The Directors confirm that none of the above connected transactions will continue following the Listing Date.

Exempted connected transactions

The following is a summary of the connected transactions that proposed to be entered into by the Group the consideration of which does not exceed the higher of HK\$1,000,000 or 0.03% of the net tangible assets of the Group. Pursuant to the GEM Listing Rules, the following connected transactions are exempted from the disclosure requirement and the shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

Authorisation to Use Copyrighted Materials

During the First Track Record Period, the Group had contracted a Korean character and graphic design company to furnish 12 electronic greeting card graphical designs and 10 cartoon characters for use in the eCards in March 2000. The finished eCards were then incorporated with the Group's Content Distribution Technology (CDT) and used in 32days.com portal, which was transferred to 32days.com Asia in October 2000.

When Mr. Chan purchased the business from HK Concepts Co in June 2001, the eCard with CDT was transferred to Art Global on the same day, while the characters were retained by Mr. Chan as they were of no commercial value to the Group and these characters were owned by the Group all along until this point. Since the eCard with CDT included characters that Mr. Chan owned, Mr. Chan therefore executed the Authorisation on 1st August, 2001 to use Copyrighted Materials (particulars of which are set out under "Summary of material contracts" in Appendix IV to this prospectus) whereby Mr. Chan granted permission to Art Global to publish, reprint, or excerpt the characters contained in 32days.com for a period of three years commenced from 1st August, 2001. Mr. Chan confirmed that Art Global is not required to pay any consideration for such authorisation.

Proposed tenancy with Capital Embroidering and Weaving Ltd.

The Group intends to enter into a tenancy agreement in January 2003 with Capital Embroidering and Weaving Ltd., a company owned as to 50% by Mr. Chan and as to 50% by Ms. Wong Cheung Yun for leasing of a property with a saleable area of 382 sq.m. in an industrial building located at Wang Lung Street of Tsuen Wan for the office of the Group to accommodate additional staff that will be hired according to the business development plan. The rental of the proposed tenancy will be determined according to the market price at the time of the tenancy agreement. It was assessed by B.I.

Appraisals Limited, an independent professional valuer on the open market rental value basis that the rental of the relevant premises (without furniture and fixtures) was about HK\$30,000 per month. Based on this valuation, the Directors expect that the monthly rental of the relevant office premises, which are fully furnished and equipped, will fall in the range between HK\$30,000 and HK\$35,000.

Proposed lease of machinery from 32days.com Asia

The Group also intends to enter into a lease with 32days.com Asia in January 2003 for leasing from 32days.com Asia certain machinery including 11 sets of web servers in anticipation for an increase in server capacity demand for i-tvServe.net and the CDMatrix. The proposed term of the lease is 24 months for a monthly rental of HK\$9,500, which the amount is derived on the basis of a straight line depreciation of the total cost of such equipments for 24 months.

All the directors, independent non-executive directors and the Sponsor are of the view that all these exempted connected transactions above-mentioned are arisen from the ordinary course of business and the considerations are reasonable and agreed on normal commercial terms.

The Directors consider that the above transactions if entered into or continued to be implemented would each constitute a connected transaction of the Company as the counterparty involved in each such transaction fall within the meaning of associate of Mr. Chan, and hence a connected person of the Company. However, in view of the fact that such transactions will either expire after the Listing Date or involve a consideration or value less than the higher of (i) HK\$1,000,000 or (ii) 0.03% of the net tangible assets of the Group, such connected transactions pursuant to Rule 20.23 of the GEM Listing Rules are exempted from reporting, announcement and shareholder's approval requirements. However, should any of the terms of the above mentioned transactions change, triggering the operation of the relevant provisions of the GEM Listing Rules, the Company will as soon as practicable comply with the relevant disclosure and approval requirements stipulated in the GEM Listing Rules or apply for a waiver in relation thereto.

DIRECTORS

Executive Directors

Mr. CHAN Tik Yuen (陳迪源), aged 29, is the Chairman of the Board and the Chief Executive Officer of the Group. Mr. Chan is responsible for the overall strategic planning and directions of the Group. Mr. Chan graduated from the University of North Carolina, Charlotte in 1994 with bachelor degrees in Science and Business Administration. Mr. Chan also received his training in computer technology at the university. Mr. Chan has two years' experience in the research and development of on-line advertising tools and mobile phone content development and over six years' experience in Internet applications, textile process, and marketing analysis when he was with Capital Automation Holdings Limited under the positions of Director and Chairman, respectively. Mr. Chan held two registered patents together with two other investors for their works in industrial automation. Mr. Chan has also developed the Group's i-tvc.net technologies and Mr. Chan has assigned his right in the relevant patent application to the Group. Mr. Chan is also the Chairman and Chief Executive Officer of 32days.com Asia and a director and a shareholder of Capital Embroidering and Weaving Ltd. (details are set out under "Connected transactions" in the section headed "Business" in this prospectus).

Mr. Chan's prior experience includes working for the Capital Automation Holdings Limited from 1994 to 2000 and during that period, Mr. Chan served as the President of Capital Automation, Inc., a wholly-owned subsidiary of Capital Automation Holdings Limited from 1998 to 2000. In 2000, Mr. Chan served as the Chairman of the board of directors of Capital Automation Holdings Limited, a company listed on the Main Board. Although Mr. Chan finished his service as the Chairman of Capital Automation Holdings Limited in August 2000, Mr. Chan spent less than 10% of his time in this capacity during March 2000 to August 2000 when he started full-time for the Group since March 2000.

Mr. Chan was elected the chief representative for the Hong Kong and Taiwan Region of the Trade & Economic Bureau of Shaoxing Economic Development Zone (浙江省紹興經濟開發區經貿局) in February 2002.

Mr. Chan is the husband of Ms. Han Seung A and the son of Ms. Wong Cheung Yun and Mr. N.H. Chan, Ms. Han Seung A and Ms. Wong Cheung Yun are non-executive Directors.

Mr. CHUNG Yan Yee, Andrew (鍾欣餘), aged 29, is an executive Director and the Chief Financial Officer of the Group and is responsible for making strategic and financial advisory to the Chairman of the Group.

Before joining the Group in August 2002, Mr. Chung was employed by Investor Asia Limited (a wholly-owned subsidiary of Investor AB of Sweden) from July 2001 as a private equity associate handling direct investments and leveraged buy-outs. From May 2000 to June 2001, Mr. Chung was hired by the IT & T Careers (HK) Limited, a wholly-owned subsidiary of the Powerlan Group of Australia as an in-house legal consultant to the mergers & acquisition division. From December 1998 to May 2000, Mr. Chung served his barrister pupilage under The Chambers of Anthony Francis Neoh, Q.C., S.C., The Ronnie Wong Q.C., S.C.'s Chambers, and The Alan Hoo Q.C., S.C.'s Chambers and subsequently joined The Gilt Chambers in March 2000 for full practice. Before he read laws in the

DIRECTORS, SENIOR MANAGEMENT AND STAFF

University of Hong Kong from 1996 to 1998, Mr. Chung also attained one-and-a-half years' auditing experience from 1995 to 1996. From July 1999 to the Latest Practicable Date, Mr. Chung is a shareholder and a director of E-Business Computing Technology Co. Ltd. which does not have any competing interest with the Group.

Besides being qualified as a barrister in Hong Kong, Mr. Chung holds a Bachelor degree of Commerce from the University of Toronto and has passed the professional examination of the Certified Public Accountant Program from the American Institute for Certified Public Accountants in 1995 and the Securities Brokers examination in Hong Kong in 1997. Mr. Chung is also a candidate of the Level 3 for the Chartered Financial Analyst examination.

Mr. CHEUNG Ka Kin (張家堅), aged 29, is an executive Director and the Chief Operating Officer. Mr. Cheung is responsible for the daily management of the Group's operating companies and product development teams.

Mr. Cheung comes from a background of engineering and project management in companies including Paragon Electronic Company Limited as Electronic Engineer from 1995-1997, Hewlett Packard Hong Kong Ltd. as a Customer Engineer from 1997 to 1998, Tiger Electronic Far East Ltd. as an Electronic Engineer in 1998 and Grandway Technology Limited as Senior Project Engineer from 1999 to 2000 responsible for project scheduling, management and development. Mr. Cheung joined HK Concepts Co. in November 2000 as a Project Manager and became the Chief Operating Officer of Art Global in June 2001. Mr. Cheung holds a Bachelor of Engineering in Electronic Engineering from The Hong Kong University of Science and Technology.

Non-executive Directors

Ms. WONG Cheung Yun (王祥雲), aged 59, is a non-executive Director and joined the Group in May 2002. With over 20 years' experience accumulated from 1970s to the present (Managing Director of Capital Embroidering and Weaving Company Limited since 1980, with details set out in "Connected transactions" in this prospectus) of running 深圳京華絲織廠有限公司 and Jin Hua Company, both are textile manufacturing and trading businesses in the PRC, Ms. Wong advises the Group on its China market development policies. Ms. Wong also served as a non-executive director in Capital Automation Holdings Limited (stock code: 0493), a company listed on the Main Board, from January 1992 to June 1997. Ms. Wong is the mother of Mr. Chan and the mother-in-law of Ms. Han Seung A.

Ms. HAN Seung A (韓承娥), aged 32, is a non-executive Director and joined the Group in June 2001. With her five years' trading and marketing experience gained in the Korean market, Ms. Han advises the development of the Group in the Korea market. Ms. Han worked as a Purchasing Manager for Sae Jon Company from 1992 to 1996. Ms. Han currently holds the directorship and the title of Business Development Manager of 32days.com Asia though it has been remaining inactive since April 2002.

Ms. Han is the wife of Mr. Chan and the daughter-in-law of Ms. Wong Cheung Yun and Mr. N. H. Chan.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

Independent Non-executive Directors

Mr. Carl CHANG (張承勳), aged 46, has experience in the broadcasting, publishing and other media related industries. From 1994 to 1995, Mr. Chang served as a general manager of Commercial Radio and TV Enterprise International. From 1996 to 1997, Mr. Chang was the President of Rock Communications Limited in Taiwan. From February 1998 to December 1999, Mr. Chang served as the Chief Executive Officer of Metro Broadcast Corporation Limited. Then he became the Chief Executive Officer of TOM.COM until May 2000. Mr. Chang is now the Chief Executive Officer of Emperor Multimedia Group and has been so since April 2002 and Mr. Chang is a director of M21 Technology Ltd, a listed company on GEM. Mr. Chang holds a Bachelor of Arts (Honours) degree from The University of Hong Kong. Mr. Chang was appointed as an independent non-executive Director in October 2002.

Mr. SHI Huan Zhang (史煥章), aged 68, is the principal partner and researcher of All Bright Law Offices in Shanghai, PRC. Mr. Shi was graduated from Beijing University with a Law degree in Business Transaction and Corporation. Mr. Shi is the present president of Shanghai Criminology Institute, president of Shanghai Jurisprudence Institute, president of Shanghai Jurist and Entrepreneur, director of Shanghai Bar Association, Vice-President of China Behavioral Jurisprudence Institute and member of Shanghai Social Combination Association. Mr. Shi was the president of Shanghai Politics and Law Management Cadre Institute in 1984, the president of East China Institute of Politics and Law (1985-1997), Visiting Professor of Illinois University in the United States and Consultant to American Asia and Pacific Law Institute of Washington University in the United States. Mr. Shi is a director of Wonders Information Co Ltd. which does not have any competing interest with the Group. Mr. Shi was appointed as an independent non-executive Director in October 2002.

DIRECTORS' SERVICE CONTRACTS AND REMUNERATION

Each of the executive Directors has entered into a service contract with the Company on 26th October, 2002 for an initial term of three years commencing from 26th October, 2002 which may be terminated by either party thereto at the expiration of 12 months from its commencement giving to the other party not less than three months' notice in writing. Under the service contracts, the initial aggregate basic annual salaries/fees, annual bonuses and annual allowances payable by the Company to the executive Directors and other Directors are approximately HK\$2,960,000, HK\$360,000 and HK\$178,000. Details of the terms of the service contracts and the Company's policies concerning remuneration of executive Directors are set forth under "Particulars of Directors' service contracts" in Appendix IV to this prospectus. The aggregate emoluments paid to the executive Directors for the First, the Second and the Third Relevant Period amounted to approximately HK\$250,000, HK\$623,000 and HK\$87,000, respectively.

COMPLIANCE OFFICER

Mr. CHUNG Yan Yee, Andrew, assumes the responsibility for acting as the Group's compliance officer, including advising on and assisting the Board in implementing procedures to ensure that the Group complies with the GEM Listing Rules and other relevant laws and regulations applicable to the Group.

AUDIT COMMITTEE

The Company established an audit committee on 26th October, 2002 with written terms of reference based on the guidelines set out in “A guide for the formation an audit committee” published by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company’s annual report and accounts, half-yearly reports and quarterly reports and to provide advice and comments thereto to the Board. The audit committee will also be responsible for reviewing and supervising the financial reporting process and internal control procedures of the Group. The audit committee has two members which comprises the two independent non-executive Directors, namely Mr. Carl Chang and Mr. Shi Huan Zhang.

COMPANY SECRETARY

Mr. Chung Yan Yee, Andrew (*Barrister*)

QUALIFIED ACCOUNTANT

Mr. Tam Chi Ming, George (*AHKSA*)

SENIOR MANAGEMENT

Mr. WU Xin Jun (吳新軍), aged 27, is the Chief Technology Officer of the Group. Mr. Wu is primarily responsible for directing and supervising the Group’s technology deployment and R&D. Mr. Wu started his first job at Capsoft in 2000 and joined the Group as a contractor in June 2001. Mr. Wu was employed full-time by the Group since June 2002.

Mr. Wu is a software developer specialising in Internet-based applications and is proficient in Microsoft Windows based development environments. Mr. Wu graduated from the China Textile University Shanghai with a Bachelor in Science degree and a Master in Science degree.

Mr. JEON, Sang Hoon (田尚勳), aged 30, is the Chief Creative Officer (Rich Media) of the Group. Before joining the Group, Mr. Jeon started his career as a web site developer and system administrator in the United States. Mr. Jeon worked as a senior designer for Capital Automation, Inc. from 1999 to 2000 and as a creative director for CAIC from 2000 until he joined the Group in April 2001 as a contractor. Mr. Jeon was employed full-time by the Group since June 2002.

Mr. Jeon graduated from Taegu University in 1998, with a Bachelor in Computer Science degree. He received certificates of Information Processing Manager in 1997 and KCIP (Korea Certificate of Internet Professional) in 1998.

Mr. KANG Tae Wook (姜太旭), aged 31, is Chief Creative Officer, Design of the Group. Mr. Kang graduated from Dong-Ah University with a Bachelor of Fine Arts (Visual Design) degree. After that, Mr. Kang continued his learning in the Parsons School of Design and University of North Carolina, Charlotte (UNCC). Mr. Kang worked as a senior designer for Capital Automation, Inc from 1999 to 2000 and as a creative director for CAIC from 2000 until he joined the Group in April 2001 as a contractor. Mr. Kang was employed full-time by the Group since June 2002.

During 1996 to 1997, Mr. Kang was awarded the special prizes from Korea Institute of Industrial Design Promotion both in Poster and Package design.

Mr. YUN Yong Ho (尹龍昊), aged 28, is the Creative Director (Rich Media) of the Group. Mr. Yun graduated from Kyungpook National University with a Bachelor degree in Landscape Architecture. Before joining the Group in April 2001 as a contractor, Mr. Yun worked as a freelance designer. Mr. Yun was employed full-time by the Group since June 2002.

Many of Mr. Yun's works were selected in various design competitions such as Creative 2001, the 3rd University Computer Graphics Promotion for Graduation Exhibition, held by Korea Adobe systems Inc. and Korea Epson Corporate. In June 2000, Mr. Yun won the 2nd prize in 2000 Communication Design Competition, held by Korea Institute of Industrial Design Promotion, and in 2002, Mr. Yun was awarded Macromedia Power User by Macromedia.

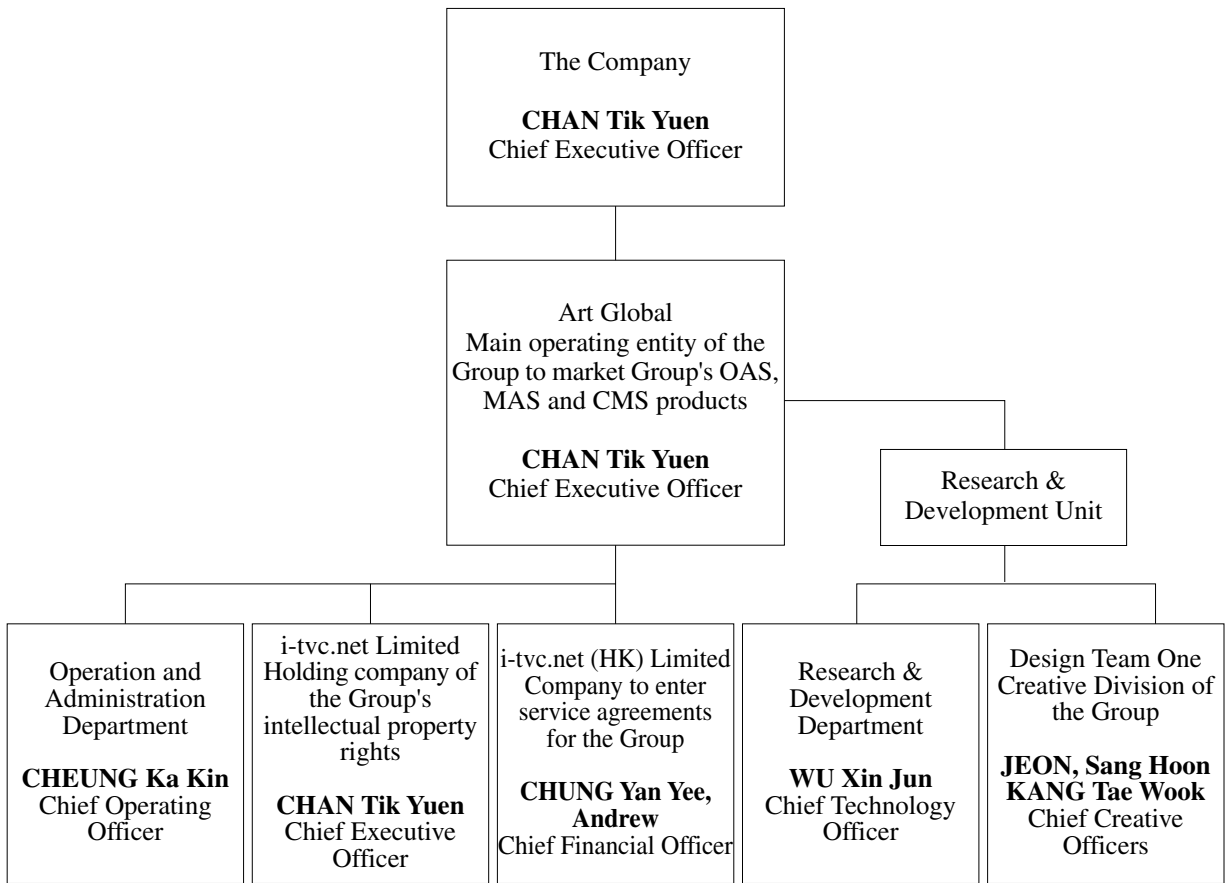
Mr. Yun is also the author of design books, such as Dreamweaver4 Tutorial (nSF Samsung Publishing), Homepage Tutorial (nSF Samsung Publishing), Flash 5 Tutorial (nSF Samsung Publishing), Director 8 Tutorial (Bestbook Publishing), Dreamweaver 3 Tutorial (Bestbook Publishing) and Director 7 Tutorial (Bestbook Publishing).

Mr. FU Siu Yau (傅兆友), aged 28, is the Creative Director (Design) of the Group. Before joining the Group, Mr. Fu started his career with Eric Mower & Associate (Buffalo, N.Y) as a graphic designer in 1998 and was responsible for creative design. From 1999 to 2001, Mr. Fu has worked for Capital Automation, Inc and CAIC as senior designer. Mr. Fu joined the Group in April 2001 as a contractor and was employed full-time by the Group since June 2002.

Mr. Fu graduated from the State University of New York College at Buffalo in 1998, with a Bachelor of Fine Arts degree. Mr. Fu received the 1st prize of International Student Organization Logo Design Competition in 1994 and International Student Organization Annual Banner Design Competition in 1995.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

ORGANISATION CHART



STAFF

As at Latest Practicable Date, the Group had 15 full-time employees in Hong Kong. An analysis by functions of the staff is as follow:

	Number of Staff
Senior management	3
Administration	1
Business development	3
R&D <i>(Note)</i>	8
	15

Note: 5 senior management staff are included under this category as most of them are R&D on the Group's products and technologies.

The Group's relationship with staff

The Directors believe that the key assets of the Group are its staff. In order to enhance the standards and product knowledge of its technical staff, the Group aims at increasing their exposure to different new technologies and information. The Group regularly arranges its staff to attend seminars and forums. In addition, the Group also organises training courses for its staff to keep them abreast of the latest developments in the IT industry and to enhance their marketing and servicing skills.

The Group has not experienced any difficulty in recruiting suitable staff nor any material disruption to its business operations due to labour disputes. The Directors consider that the Group has maintained a good relationship with its staff.

Benefits

The Group has participated in a defined contribution scheme for all its staff in Hong Kong. The defined contribution scheme operates along with the introduction of the requirement for the Mandatory Provident Fund in Hong Kong in December 2000. The assets of the scheme are held separately from those of the Group in an independently administered fund. Monthly contributions are made at 5% of each employee's salary or HK\$1,000, whichever is less, and are charged to the profit and loss accounts as the amounts become payable in accordance to the rules of the scheme.

Share Option Schemes

The Group has conditionally adopted the Pre-IPO Share Option Scheme and the Share Option Scheme. Pursuant to the Pre-IPO Share Option Scheme, certain Directors and senior management staff of the Group have been granted options to acquire Shares. Details of the terms of such options granted are set out in the section headed "Options granted under the Pre-IPO Share Option Scheme" in this prospectus.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out under "Share Option schemes" in Appendix IV to this prospectus. The Directors believe that the Pre-IPO Share Option Scheme and the Share Option Scheme will assist the Group in the retention and recruitment of high calibre executives and employees.

SUBSTANTIAL SHAREHOLDERS, INITIAL MANAGEMENT SHAREHOLDERS AND SIGNIFICANT SHAREHOLDER

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following completion of the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and taking no account of the Shares that may be taken up under the Placing and the Shares that may fall to be issued pursuant to the exercise of any option granted under the Pre-IPO Share Option Scheme and any option that may be granted the Share Option Scheme), the following persons will be directly or indirectly interested in 10% or more of the voting power at any meeting of the Company is therefore regarded as a substantial shareholder of the Company under the GEM Listing Rules:

Name	Number of Shares or attributable number of Shares held immediately following completion of the Placing and the Capitalisation Issue	Approximate percentage of shareholding immediately following completion of the Placing and the Capitalisation Issue
City Pacific Ventures Limited (<i>Note 1</i>)	360,000,000	75%
Joy Ventures (<i>Note 1</i>)	360,000,000	75%
Mr. Chan (<i>Notes 2 & 3</i>)	360,000,000	75%
Ms. Han Seung A (<i>Note 3</i>)	360,000,000	75%

Notes:

- (1) City Pacific Ventures Limited is wholly-owned by Joy Ventures as trustee of The WCY Unit Trust, all but one units of which are beneficially owned by The CNH Trust. The remaining one unit of The WCY Unit Trust is beneficially owned by Ms. Wong Cheung Yun (the mother of Mr. Chan). HSBC International Trustee Limited and Ms. Wong Cheung Yun are the trustee and the protector of The CNH Trust, respectively. The discretionary objects of The CNH Trust during the Moratorium Period are Mr. Chan (as to 60% of the trust assets) and Mr. N. H. Chan (as to 40% of the trust assets) and thereafter are the family members of Mr. Chan and Mr. N. H. Chan including, but not limited to, Ms. Han Seung A (the spouse of Mr. Chan), Ms Wong Cheung Yun and Chan Shiu Shu (the daughter of Mr. Chan). Joy Ventures is wholly-owned by The CNH Trust. In accordance with the terms of the trust deed of The CNH Trust, Mr. Chan, as the settlor of The CNH Trust, has conferred the widest possible discretionary power onto HSBC International Trustee Limited as to the administration of the trust fund. Hence, HSBC International Trustee Limited has a complete and unfettered discretion as to whether or not to make any distribution, the amount of the distribution, which beneficiaries will receive the distribution, the investment of the trust fund and early termination of the trust period, subject to the restriction that no distribution of the trust fund shall be made under The CNH Trust during the Moratorium Period. To this end, HSBC International Trustee Limited will not be influenced by Mr. Chan to cause any disposal of the Shares. In accordance with the terms of the trust deed of The CNH Trust, the protector, Ms. Wong Cheung Yun has the power to remove HSBC International Trustee Limited as trustee of The CNH Trust and appoint a replacement. As such, Ms. Wong Cheung Yun will exercise this removal power if it is found that HSBC International Trustee Limited has any serious mismanagement or misconduct as to the trust fund.
- (2) Mr. Chan is the sole director of City Pacific Ventures Limited and is deemed to be interested in all the Shares held by City Pacific Ventures Limited for the purposes of the SDI Ordinance.
- (3) Mr. Chan and Ms. Han Seung A are spouses to each other and are deemed to be interested in all the interests held by the other for the purposes of the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS, INITIAL MANAGEMENT SHAREHOLDERS AND SIGNIFICANT SHAREHOLDER

INITIAL MANAGEMENT SHAREHOLDERS

The following persons are individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company and are able, as a practical matter, to direct or influence the management of the Company immediately after completion of the Placing and the Capitalisation Issue (assuming the Over-allotment Option is not exercised and taking no account of the Shares that may be taken up under the Placing and the Shares that may fall to be issued pursuant to the exercise of any option granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Share Option Scheme) and are therefore regarded as Initial Management Shareholders under the GEM Listing Rules:

Name of Initial Management Shareholders	Number of Shares or attributable number of Shares held immediately following completion of the Placing and the Capitalisation Issue	Percentage or attributable percentage of shareholding immediately following completion of the Placing and the Capitalisation Issue
City Pacific Ventures Limited (<i>Note 1</i>)	360,000,000	75% (<i>Note 2</i>)
Joy Ventures (<i>Note 1</i>)	360,000,000	75%
Mr. Chan (<i>Notes 1, 3, 4</i>)	216,000,000	45%
Mr. N. H. Chan (<i>Notes 1, 4, 5</i>)	144,000,000	30%

Notes:

- (1) Immediately before the Placing and the Capitalisation Issue, City Pacific Ventures Limited holds 100% of the issued Shares. City Pacific Ventures Limited is wholly-owned by Joy Ventures as trustee of The WCY Unit Trust, all but one units of which are beneficially owned by The CNH Trust. The remaining one unit of The WCY Unit Trust is beneficially owned by Ms. Wong Cheung Yun (the mother of Mr. Chan). HSBC International Trustee Limited and Ms. Wong Cheung Yun are the trustee and the protector of The CNH Trust, respectively. The discretionary objects of The CNH Trust during the Moratorium Period are Mr. Chan (as to 60% of the trust assets) and Mr. N. H. Chan (as to 40% of the trust assets) and thereafter are the family members of Mr. Chan and Mr. N. H. Chan including, but not limited to, Ms. Han Seung A (the spouse of Mr. Chan), Ms Wong Cheung Yun and Ms. Chan Shiu Shu (the daughter of Mr. Chan). Joy Ventures is wholly-owned by The CNH Trust. In accordance with the terms of the trust deed of The CNH Trust, Mr. Chan, as the settlor of The CNH Trust, has conferred the widest possible discretionary powers onto HSBC International Trustee Limited as to the administration of the trust fund. Hence, HSBC International Trustee Limited has a complete and unfettered discretion as to whether or not to make any distribution, the amount of the distribution, which beneficiaries will receive the distribution, the investment of the trust fund and early termination of the trust period, subject to the restriction that no distribution of the trust fund shall be made under The CNH Trust during the Moratorium Period. To this end, HSBC International Trustee Limited will not be influenced by Mr. Chan to cause any disposal of the Shares. In accordance with the terms of the trust deed of The CNH Trust, the protector, Ms. Wong Cheung Yun, has the power to remove HSBC International Trustee Limited as the trustee of The CNH Trust and appoint a replacement. As such, Ms. Wong Cheung Yun will exercise this removal power if it is found that HSBC International Trustee Limited has any serious mismanagement or misconduct as to the trust fund.

SUBSTANTIAL SHAREHOLDERS, INITIAL MANAGEMENT SHAREHOLDERS AND SIGNIFICANT SHAREHOLDER

- (2) Assuming that the Over-allotment Option is exercised in full, City Pacific Ventures Limited will hold 73.17% of the entire issued Shares immediately following completion of the Placing and the Capitalisation Issue.
- (3) Mr. Chan is a discretionary object of The CNH Trust. Please refer to Note (1) above for details of the trust arrangement. Mr. Chan became a shareholder of Yorkmax Investments Ltd. on 14th June, 2001, holding 900 shares, representing 60% of the total issued shares of Yorkmax Investments Ltd. Pursuant to the Reorganisation, Mr. Chan's 900 shares in Yorkmax Investments Ltd. were exchanged for 60 shares in the issued share capital of City Pacific Ventures Limited, which, together with another 60 shares in the issued share capital of City Pacific Ventures Limited originally held by Mr. Chan (in aggregate representing 60% of the issued share capital of City Pacific Ventures Limited), were subsequently transferred to Joy Ventures for the purpose of setting up the trust arrangement mentioned in Note (1) above.
- (4) Yorkmax Investments Ltd. was incorporated as the holding company of Art Global, to which Mr. Chan transferred the on-line content distribution business solution acquired from HK Concepts Co. in June 2001. HK Concepts Co is a wholly-owned subsidiary of HK Concepts International which, before June 2001, was owned as to 32% and 31% by Mr. Chan and Mr. N. H. Chan, respectively. Mr. Chan and Mr. N. H. Chan were two of the co-founders of HK Concepts International. They founded the Group in March 2000 when HK Concepts Co was established, which carried on the on-line content distribution solution business of the Group before the same was transferred to Mr. Chan, and then to Art Global as aforesaid. Please refer to the section headed "Corporate structure, history and active business pursuits" in this prospectus for further information.
- (5) Mr. N. H. Chan is also a discretionary object of The CNH Trust. Please refer to Note (1) above for details of the trust arrangement. Mr. N. H. Chan became a shareholder of Yorkmax Investments Ltd. on 14th June, 2001, holding 600 shares, representing 40% of the total issued shares of Yorkmax Investments Ltd. Pursuant to the Reorganisation, Mr. N. H. Chan's 600 shares in Yorkmax Investments Ltd. were exchanged for 40 shares in the issued share capital of City Pacific Ventures Limited, which, together with another 40 shares in City Pacific Ventures Limited originally held by Mr. N. H. Chan (in aggregate representing 40% of the issued share capital of City Pacific Ventures Limited), were subsequently transferred to Joy Ventures for the purpose of setting up the trust arrangement mentioned in Note (1) above.

SIGNIFICANT SHAREHOLDER

So far as the Directors are aware, immediately following completion of the Placing and the Capitalisation Issue (assuming that the Over-allotment Option is not exercise and taking no account of the Shares that may be taken up under the Placing and the Shares that may fall to be issued pursuant to the exercise of any option granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Share Option Scheme), apart from the substantial shareholder and the Initial Management Shareholders disclosed above, there are no other persons who will be directly or indirectly interested in 5% or more of the Shares then in issue.

MORATORIUM PERIOD

Undertakings

Initial Management Shareholders

Each of the Initial Management Shareholders has undertaken to the Company, the Sponsor (except Mr. N. H. Chan) and the Stock Exchange not to dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any direct or indirect interest in the Relevant Securities during the Moratorium Period, except as otherwise permitted under the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS, INITIAL MANAGEMENT SHAREHOLDERS AND SIGNIFICANT SHAREHOLDER

Each of Joy Ventures as trustee of The WCY Unit Trust and Ms. Wong Cheung Yun has undertaken to the Company, the Sponsor and the Stock Exchange that it/she will not 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) any interests in City Pacific Ventures Limited and The WCY Unit Trust, respectively, during the Moratorium Period.

Each of Joy Ventures and HSBC International Trustee Limited has undertaken to the Company, the Sponsor and the Stock Exchange that it will not distribute or dispose of (or enter into any agreement to distribute or dispose of) or permit the registered holder to distribute or dispose of (or enter into any agreement to distribute or dispose of) any asset or interest in The WCY Unit Trust during the Moratorium Period. HSBC International Trustee Limited has further undertaken to the Company, the Sponsor and the Stock Exchange that during the Moratorium Period, it will give one month's prior written notice to Ms. Wong Cheung Yun, the protector of The CNH Trust, of its proposal to appoint additional person to become a discretionary object or to remove any discretionary object of The CNH Trust.

Pursuant to the provision of the trust deed of The CNH Trust, HSBC International Trustee Limited is not allowed to distribute or dispose of (or enter into any agreement to distribute or dispose of) or permit the registered holder to distribute or dispose of (or enter into any agreement to distribute or dispose of) any asset or interest in The CNH Trust during the Moratorium Period.

Ms. Wong Cheung Yun, being the protector of The CNH Trust, has undertaken to the Company, the Sponsor and the Stock Exchange in the event that during the Moratorium Period, HSBC International Trustee Limited, being the existing trustee of The CNH Trust, appoint any additional person to become or remove any discretionary object of The CNH Trust, she will (i) exercise the rights vested in her as the protector of The CNH Trust to remove the existing trustee; (ii) procure the newly appointed trustee to undertake to the Company, the Sponsor and the Stock Exchange not to distribute or dispose of (or enter into any agreement to distribute or dispose of) or permit the registered holder to distribute or dispose of (or enter into any agreement to distribute or dispose of) any asset or interest in The WCY Unit Trust for a period from the date of appointment of such new trustee to the expiry of the Moratorium Period; and (iii) procure the newly appointed trustee to undertake to give written notice to her of its proposal to appoint additional person to become or remove any discretionary object of The CNH Trust for a period from the date of appointment of such new trustee to the expiry of a period of the Moratorium Period in such case, Ms. Wong Cheung Yun will exercise the same power to remove the new trustee.

ESCROW ARRANGEMENTS

Each of the Initial Management Shareholders has undertaken to the Company, the Sponsor (except Mr. N. H. Chan) and the Stock Exchange to place or procure the registered holder to place the Relevant Securities in escrow with an escrow agent acceptable to the Stock Exchange during the Moratorium Period.

NO COMPETING BUSINESS AS AT THE LATEST PRACTICABLE DATE

None of the Initial Management Shareholders was engaged in any business that is competing or is likely to compete with the business of the Group.

OPTIONS GRANTED UNDER PRE-IPO SHARE OPTION SCHEME

As at the date of this prospectus, options to subscribe for an aggregate of 37,241,377 Shares, representing 7.2% of the total issued share capital of the Company immediately after completion of the Placing and Capitalisation Issue (assuming that the Over-allotment Option is not exercised and all the options granted under the Pre-IPO Share Option Scheme are exercised in full), were conditionally granted by the Company to nine grantees under the Pre-IPO Share Option Scheme. Details of the outstanding options granted to the grantees are as follows:

Senior management

Name of grantee/ <i>(position in the Group)</i>	Address	No. of Shares subject to the options granted under Pre-IPO Share Option Scheme	Exercise price per underlying Share	Approximate percentage of shareholding immediately following completion of the Placing and the Capitalisation Issue assuming that there is no exercise of the Over-allotment Option and all of the options granted under Pre-IPO Share Option Scheme are exercised
Mr. Jeon Sang Hoon <i>(Chief Creative Officer (Rich Media))</i>	Room A3-102, No. 851 Hong Jing Road, Shanghai, PRC	4,655,172	HK\$0.05	0.9%
Mr. Kang Tae Wook <i>(Chief Creative Officer (Design))</i>	Room D-203, Rome Garden, No. 8 Rong Hua Dong Dao, Changning District, Shanghai, PRC	3,103,448	HK\$0.05	0.6%

OPTIONS GRANTED UNDER PRE-IPO SHARE OPTION SCHEME

Name of grantee/ <i>(position in the Group)</i>	Address	No. of Shares subject to the options granted under Pre-IPO Share Option Scheme	Exercise price per underlying Share	Approximate percentage of shareholding immediately following completion of the Placing and the Capitalisation Issue assuming that there is no exercise of the Over-allotment Option and all of the options granted under Pre-IPO Share Option Scheme are exercised
Mr. Wu Xin Jun <i>(Chief Technology Officer)</i>	Room 103, 38/1115 Lane, Hong Qiao Road, Shanghai, PRC	3,103,448	HK\$0.05	0.6%
Mr. Fu Siu Yau <i>(Creative Director (Design))</i>	A2807, Cheung Tak House, Cheung Wah Estate, Fanling, New Territories, Hong Kong	3,103,448	HK\$0.05	0.6%
Mr. Yun Yong Ho <i>(Creative Director (Rich Media))</i>	Room D-203, Rome Garden, No. 8 Rong Hua Dong Dao, Changning District, Shanghai, PRC	1,551,724	HK\$0.05	0.3%
	Sub-total	<u>15,517,240</u>		<u>3.0%</u>

OPTIONS GRANTED UNDER PRE-IPO SHARE OPTION SCHEME

Directors

Name of grantee	Address	No. of Shares subject to the options granted under Pre-IPO Share Option Scheme	Exercise price per underlying Share	Approximate percentage of shareholding immediately following completion of the Placing and the Capitalisation Issue assuming that there is no exercise of the Over-allotment Option and all of the options granted under Pre-IPO Share Option Scheme are exercised
<i>Executive Directors</i>				
Mr. Chung Yan Yee, Andrew	4/F., Flat G, Block 2, Illumination Terrace, 7 Tai Hang Road, Hong Kong	7,758,621	HK\$0.05	1.5%
Mr. Cheung Ka Kin	49G, Block 3, Island Resort, Chai Wan, Hong Kong	4,655,172	HK\$0.05	0.9%
<i>Non-executive Directors</i>				
Ms. Wong Cheung Yun	12B, Block 3, Island Resort, Chai Wan, Hong Kong	4,655,172	HK\$0.05	0.9%
Ms. Han Seung A	26C, Tower 1, Starcrest, 9 Star Street, Wan Chai, Hong Kong	4,655,172	HK\$0.05	0.9%
	Sub-total	<u>21,724,137</u>		<u>4.2%</u>
	Total	<u>37,241,377</u>		<u>7.2%</u>

Notes:

- (1) Assuming that all the options granted under the Pre-IPO Share Options Scheme are exercised in full and there is no exercise of the Over-allotment Option, the percentage of Shares then held by members of the public will reduce to approximately 23.2%.
- (2) In addition, the relevant Directors and the senior management of the Group have also undertaken not to exercise their options granted under the Pre-IPO Share Option Scheme should any of their exercise would lead to a fall in the shareholdings of the Company held by members of the public to be below 25%.

OPTIONS GRANTED UNDER PRE-IPO SHARE OPTION SCHEME

Mr. Chung Yan Yee, Andrew was involved in the preparation for the listing of the Shares on GEM and the options were granted to him in recognition of his efforts.

Mr. Cheung Ka Kin has been a core management staff member of the Group and has been overseeing the operation and projects of the Group since he joined the Group in November 2000. The options were granted to him in recognition of his contribution to the Group's development.

Each of Mr. Jeon Sang Hoon, Mr. Kang Tae Wook, Mr. Wu Xin Jun, Mr. Fu Siu Yau and Mr. Yun Yong Ho has been working for the Group either as an employee or a contractor since April 2001 and has been working towards the improvement of the Group's products and technologies both on the technical side and the creative side. The options were granted to them as a recognition of their performance.

Ms. Wong Cheung Yun has experience in doing business in the PRC and has been assisting the Group in building up business relationships. Ms. Han Seung A has been assisting the Group to generate client and business partners in Korea. The options were granted to them in recognition of their efforts in exploring new markets for the Group.

Each of Mr. Chung Yan Yee, Andrew, Mr. Cheung Ka Kin, Ms. Wong Cheung Yun, Ms. Han Seung A, Mr. Jeon Sang Hoon, Mr. Kang Tae Wook, Mr. Wu Xin Jun, Mr. Fu Siu Yau and Mr. Yun Yong Ho has undertaken to the Company, the Sponsor (on behalf of the Placing Underwriters) and the Stock Exchange that in the event that he/she exercises his/her right attached to the options granted to him/her under the Pre-IPO Share Option Scheme, he/she will not, save as provided in Rule 13.18 of the GEM Listing Rules, 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) any direct or indirect interest in the Relevant Securities for a period from the date he/she becomes a beneficial owner of the Relevant Securities to the expiry of Moratorium Period.

Each of the Directors and the Company has undertaken to the Stock Exchange that in the event that the minimum public float required under Rule 11.23 of the GEM Listing Rules is not met as a result of the exercise of any of the options granted under the Pre-IPO Share Option Scheme, he or it will procure that the minimum public float be restored as soon as practicable and in any event within three months.

The terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price for Shares under the Pre-IPO Share Option Scheme shall be determined by the Board but in no event less than the nominal value of the Shares;
- (b) the total number of Shares subject to the Pre-IPO Share Option Scheme is 37,241,377 and there are no similar requirements on granting options to connected persons as summarised under "Summary of the principal terms of the Share Option Scheme" in Appendix IV to this prospectus;

OPTIONS GRANTED UNDER PRE-IPO SHARE OPTION SCHEME

- (c) the definition of “Employee” does not include employee of an Associated Company (as defined under “Summary of the principal terms of the Share Option Scheme” in Appendix IV to this prospectus);
- (d) the definition of “Qualified Person” does not include supplier, customer, agent or adviser of the Group;
- (e) save for the options which have been granted (see below), no further options will be offered or granted, as the right to do so will end upon the listing of the Shares on GEM.

Each of the grantees to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise the options at any time after the expiry of 12 months and not later than ten years from the date of grant.

The Directors consider that the endowment contributed by the grantees of the Pre-IPO Share Option Scheme is crucial to the Group’s success and development. As such, the Directors are of the view that the exercise price of options granted under the Pre-IPO Share Option Scheme, at a discount to the Offer Price, is fair and reasonable.

SHARE CAPITAL

The share capital of the Company, issued and to be issued, fully-paid or credited as fully-paid, immediately following completion of the Placing and the Capitalisation Issue, will be as follows:

Authorised share capital: *HK\$*

<u>2,000,000,000</u>	Shares	<u>20,000,000</u>
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Shares issued and to be issued, fully-paid or credited as fully-paid:

200,000	Shares in issue at the date of this prospectus	2,000
80,000,000	Shares to be issued pursuant to the Placing (excluding Sale Shares)	800,000
<u>399,800,000</u>	Shares to be issued pursuant to the Capitalisation Issue	<u>3,998,000</u>

Total shares issued and to be issued:

<u>480,000,000</u>	Shares	<u>4,800,000</u>
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The minimum level of public float to be maintained by the Company at all times after listing on GEM, as required by the GEM Listing Rules, is 25% of its share capital in issue from time to time.

1. Assumptions

The above table assumes that the Placing become unconditional. It takes no account of (i) any Shares which may be issued upon exercise of any option granted under the Pre-IPO Share Option Scheme or any option that may be granted under the Share Option Scheme; (ii) any Shares which may be allotted and issued under the general mandate (see note 4 below), or which may be repurchased by the Company pursuant to the share repurchase mandate (see note 5 below); and (iii) any Shares which may be issued upon the exercise of the Over-allotment Option.

2. Ranking

The Placing Shares will rank equally with all of the Shares currently in issue or to be issued as mentioned herein (except for the entitlement under the Capitalisation Issue), and will qualify for all dividends or other distributions declared, made or paid on the Shares after the date of the prospectus.

3. Share options

The Company has conditionally adopted the Pre-IPO Share Option Scheme, a summary of the principal terms of which is set out under “Share Option Schemes” in Appendix IV to this prospectus.

SHARE CAPITAL

The Company has also conditionally adopted the Share Option Scheme, a summary of the main terms of which is set out under “Share Option Schemes” in Appendix IV to this prospectus. Under the Pre-IPO Share Option Scheme and the Share Option Scheme, the aggregate number of Shares which may be issued upon exercise by all outstanding options granted thereunder and any other share option schemes of the Company must not exceed 30% of the issued share capital of the Company from time to time.

4. General mandate to issue new Shares

The Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of the Company with a total nominal value of not more than the sums of:

- (a) 20% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein; and
- (b) the aggregate nominal value of the share capital of the Company represented by Shares or securities issued and repurchased by the Company pursuant to the authority granted to the Directors as referred to in note (5) below.

Such mandate does not cover Shares to be allotted, issued or dealt with under the Placing and the Capitalisation Issue or a rights issue or similar arrangements in accordance with the articles of association of the Company or on the exercise of the Over-allotment Option or options granted under the Pre-IPO Share Option Scheme or that may be granted under the Share Option Scheme or the Placing or the Capitalisation Issue, respectively. Such mandate remains in effect until:

- the conclusion of the next annual general meeting of the Company; or
- the end of the period within which the next annual general meeting of the Company is required to be held under the articles of association of the Company or any applicable Cayman Islands law; or
- the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors,

whichever first occurs.

Further information on this general mandate is set out under “Written resolutions of the sole member passed on 26th October, 2002” in Appendix IV to this prospectus.

5. General mandate to repurchase Shares

The Directors have been granted a general mandate to exercise all powers of the Company to repurchase Shares with a total nominal value not exceeding 10% of the total nominal amount of the share capital of the Company in issue and to be issued as mentioned herein.

This mandate only relates to repurchases made on GEM or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with all applicable laws and the requirements of the GEM Listing Rules or all applicable laws and regulations of other stock exchange as amended from time to time. A summary of the relevant GEM Listing Rules is set out under “Repurchase by the Company of its own securities” in Appendix IV to this prospectus.

This mandate will expire at:

- the conclusion of the next annual general meeting of the Company;
- the end of the period within which the next annual general meeting of the Company is required to be held under the articles of association of the Company or any applicable Cayman Islands law; or
- the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors,

whichever first occurs.

Further information on this general mandate is set forth under “Written resolutions of the sole member passed on 26th October, 2002” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

INDEBTEDNESS

Borrowings

As at the close of business on 31st October, 2002, being the latest practicable date for the purpose of this indebtedness statement, the Group had outstanding indebtedness of approximately HK\$1,403,000 comprising an unsecured bank overdraft of approximately HK\$1,390,000 and an unsecured advance from a director of approximately HK\$13,000.

Pledge of assets

As 31st October, 2002, the Group had no pledge of assets.

Contingent liabilities

As at 31st October, 2002, the Group had no material contingent liabilities and liabilities under guarantees.

Commitments under operating lease

As at 31st October, 2002, the Group had outstanding commitments under non-cancellable operating leases of approximately HK\$305,000 and HK\$160,000, which fall due within one year and in the second to fifth year inclusive, respectively.

Capital commitments

The Group had no material capital commitment as at 31st October, 2002.

Banking facilities

At 31st October, 2002, the Group had aggregate banking facilities of approximately HK\$2,000,000 which were secured by a fixed charge on a bank deposit of HK\$2,000,000 of Mr. Chan.

The Group utilised these banking facilities to pay the listing expenses. Immediately upon listing, the Group will settle all the outstanding indebtedness under these banking facilities and cancel these banking facilities, and the securities provided by Mr. Chan will be released.

Foreign exchange risk

Since most of the income and expenditure of the Group prior to 31st October, 2002 were denominated in Hong Kong dollars, and most of the assets and liabilities as at 31st October, 2002 were denominated in Hong Kong dollars, the Directors do not consider that the Group was significantly exposed to any foreign currency exchange risk.

FINANCIAL INFORMATION

Disclaimers

Save as aforesaid and apart from intra-company liabilities, the Group did not have any mortgages, charges, debentures or other loan capital or bank overdrafts, loans or other similar indebtedness, or hire purchase commitments or any guarantees or other material contingent liabilities outstanding at the close of business on 31st October, 2002.

Save as aforesaid, the Directors have confirmed that there has not been any material change in the indebtedness and contingent liabilities of the Group since 31st October, 2002.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

As at 31st October, 2002, the Directors were not aware of any circumstances, which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31st October, 2002, the Group had net current assets of approximately HK\$253,000. The current assets and current liabilities of the Group as at that date were approximately HK\$2,139,000 and approximately HK\$1,886,000 in aggregate, respectively. Current assets represented deposit, prepayment and other receivables of approximately HK\$1,799,000, account receivable of approximately HK\$283,000, bank balances and cash of approximately HK\$57,000. Current liabilities represented other payables and accruals of approximately HK\$333,000, bank overdraft of approximately HK\$1,390,000, an amount due to a director of approximately HK\$13,000, taxation payable of approximately HK\$150,000.

Financial resources

The Group generally finances its operations with internally generated resources and bank borrowings.

Directors' opinion of the working capital

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

As at 31st October, 2002, the Group had outstanding bank borrowings of approximately HK\$1,390,000 and had no financial instruments for hedging purposes.

FINANCIAL INFORMATION

TRADING RECORD

Summary of combined results of the Group

The following is a summary of the audited combined results of the Group for each of the two years ended 31st March 2002, and for the three months ended 30th June, 2002, which have been extracted from the accountants' report, the text of which is set out in Appendix I to this prospectus. This summary has been prepared on the basis of presentation as set out in note 1 to Section A of the accountants' report and should be read in conjunction with the accountants' report, the text of which is set forth in Appendix I to this prospectus:

	<i>Notes</i>	Year ended 31st March, 2001	2002	Three months ended 30th June, 2002
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	1			
OAS		—	1,020	90
MAS		3	12	—
CMS		—	2,749	732
		<u> </u>	<u> </u>	<u> </u>
Total		3	3,781	822
Other operating income		1	—	—
Interest income		256	11	—
Research and development expenditures		(5,991)	(867)	(184)
Selling expenses		(146)	(176)	(48)
Administrative expenses		(360)	(1,838)	(559)
		<u> </u>	<u> </u>	<u> </u>
(Loss) profit from operations		(6,237)	911	31
Finance costs		(3)	(1)	—
		<u> </u>	<u> </u>	<u> </u>
(Loss) profit before taxation		(6,240)	910	31
Taxation		—	(193)	(13)
		<u> </u>	<u> </u>	<u> </u>
Net (loss) profit for the year/period		<u>(6,240)</u>	<u>717</u>	<u>18</u>
Dividend		<u>—</u>	<u>—</u>	<u>—</u>
(Loss) earnings per Share, in HK cents	2			
Basic		<u>(1.60)</u>	<u>0.18</u>	<u>0.005</u>
Diluted		<u>(1.60)</u>	<u>0.17</u>	<u>0.004</u>

FINANCIAL INFORMATION

The Group entered into an agreement with 32days.com Asia, 99.9% of its issued share capital was held by Yorkmax Investments Ltd. during the period from December 2001 to April 2002 and the largest customer of the Group for the year ended 31st March, 2002 and the three months ended 30th June, 2002, to provide site management and content management services for a period of 10 months at HK\$100,000 per month since 15th September, 2001 for a total consideration of HK\$1,000,000. The whole service completed with income recognised based on services rendered on each month for the period from September 2001 to June 2002 with all balances settled in June 2002. In addition, the Group also sold CMS for Portal to 32days.com Asia for a total consideration of HK\$390,000 in September 2001 when 32days.com Asia was not held by Yorkmax Investments Ltd.

The total amount of HK\$1,000,000 received for ten monthly instalments (from September 2001 to March 2002 for the year ended 31st March, 2002 and from April 2002 to June 2002 for the three months ended 30th June, 2002) based on the above-mentioned agreement and the HK\$390,000 for the sale of CMS for Portal represented 29% and 36% of the total turnover for the year ended 31st March, 2002 and the three months ended 30th June, 2002, respectively. As such, the amounts of HK\$1,090,000 and HK\$300,000 were included as revenue earned in the Group's turnover and profit for the year ended 31st March, 2002 and the three months ended 30th June, 2002.

As the Group does not intend to renew the above-mentioned arrangements and the agreement was completed with income recognised from September 2001 to June 2002 and settled in June 2002, the termination of this income source could adversely affect the financial position of the Group should it be unable to explore new income source from other Independent Third Parties. Moreover, the record of the sales of HK\$1,090,000 and HK\$300,000 to 32days.com Asia in the Group's turnover for the year ended 31st March, 2002 and the three months ended 30th June, 2002 may not be reflective of the Group's results in the future. The Directors and the Sponsor are of the view that these transactions, which included the continuation of the CMS service contract with 32days.com Asia from April 2002 to June 2002 even 32days.com portal was inactive since April 2002, arose from the ordinary course of business of the Group and that the considerations were reasonable and agreed on normal commercial terms, which represented genuine considerations for the services provided by the Group.

Notes:

1. On-line advertising projects are classified as long-term projects or short-term projects. Revenue is recognised using the percentage of completion method for long-term projects whereas revenue is recognised for short-term project when the project is completed.

Revenue from content management solutions is recognised when the management services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

2. The calculation of (loss) earnings per Share for each of the two years ended 31st March, 2001 and 31st March, 2002 and the three months ended 30th June, 2002 respectively is based on the net (loss) profit during the corresponding year/period under review and the 400,000,000 Shares deemed to be in issue throughout the period/year under review.

FINANCIAL INFORMATION

The calculation of diluted loss per Share for the year ended 31st March, 2001 does not assume the exercise of the share options as their exercise would result in a decrease in loss per Share.

The diluted earnings per share for the year ended 31st March, 2002 and the three months ended 30th June, 2002 is based on the Group's net profit for the year/period of HK\$717,000 and HK\$18,000 respectively and on the weighted average of 429,793,102 shares issued and issuable (after adjusting for the deemed issue of 29,793,102 shares, calculated with reference to the number of shares issuable under the Pre-IPO Share Option Scheme.

3. Each of the Directors has entered into a service contract or a letter of appointment with the Company subsequent to 30th June, 2002. The aggregate emoluments payable to the Directors will amount to approximately HK\$3,498,000 per annum. Had the emoluments paid to the Directors for the Relevant Periods been based on the above-mentioned service contracts or letters of appointment and the charge to the combined results of the Group after taxation would have been as follows:

	Year ended 31st March,		Three months
	2001	2002	ended
	<i>HK\$'000</i>	<i>HK\$'000</i>	30th June,
			2002
			<i>HK\$'000</i>
Net (loss) profit for the year/period	(6,240)	717	18
Add: Directors' remuneration paid for the year/period after tax effect (<i>Note</i>)	210	523	73
Less: Notional Directors' remuneration after tax effect (<i>Note</i>)	(2,938)	(2,938)	(735)
Adjusted net loss for the year/period	(8,968)	(1,698)	(644)

Note: The tax effect is calculated at Hong Kong profits tax rate of 16%.

The First Relevant Period

Turnover

The Group recorded a turnover of approximately HK\$3,000 for the First Relevant Period and this was solely attributable to the WAP Card provided to one customer. The reason for the minimal turnover was due to the initial start up stage of the Group where significant efforts were devoted on product development rather than on selling products.

R&D expenses

R&D expenses for the period amounted to approximately HK\$5,991,000, which consisted mainly of the consultancy fee of approximately HK\$4,524,000 paid to CAIC for the development of a content distribution and multimedia presentation creation tool for the use in the OAS, MAS and CMS solutions. In addition, the Group also purchased design tools and software from CAIC for a total of approximately HK\$332,000.

Selling expenses

Selling expenses during the corresponding period was approximately HK\$146,000. Such expenses comprised primarily advertising and promotion expenses and sales staff salary.

FINANCIAL INFORMATION

Administrative expenses

Administrative expenses during the corresponding period was approximately HK\$360,000. Such expenses comprised primarily salary and wage expenses, legal and professional fee, overseas travelling expenses, insurance expenses and business registration fee.

Net loss

At its early stage of development, the Group operated at a loss. Net loss during the year was approximately HK\$6,240,000.

The Second Relevant Period

Turnover

The Group's turnover increased significantly to approximately HK\$3,781,000 for the Second Relevant Period, comparing to the HK\$3,000 in the First Relevant Period. The provision of OAS and CMS was the key revenue contributor which accounted for approximately 27% and 73% of the turnover during the year. Underlying this growth in turnover was the fact that during the year, the Group was able to engage 27 customers and completed 22 OAS projects, of which one of these projects have applied the i-tvc.net technologies including the i-tvc.net and i-tvServe.net advertising serving system which were developed and completed in March 2002, by the Group.

Interest income

Bank interest income decreased as a result of the drop in average bank balance throughout the year ended 31st March, 2002.

R&D expenses

R&D expenses for the Second Relevant Period amounted to approximately HK\$867,000. The plunge in this expense, comparing to the HK\$5,991,000 in the First Relevant Period, was due to reasons including: a) substantial completion of R&D in the CDMatrix b) recruitment of ex-CAIC employees to carry out continuous R&D at lower costs; and c) some CDT no longer required development but just maintenance in technology.

Selling expenses

During the year, the Group's selling expenses amounted to approximately HK\$176,000, representing an increase of approximately 21% in comparison with the corresponding period in 2001. The increase in the selling expenses was mainly due to the increase in sales staff salary from approximately HK\$67,000 for the First Relevant Period to approximately HK\$156,000 during the Second Relevant Period as the sales staff joined halfway in the First Relevant Period.

FINANCIAL INFORMATION

Administrative expenses

During the year, the Group's administration expenses amounted to approximately HK\$1,838,000, representing an increase of approximately 4.1 times in comparison with the corresponding period in 2001. The increase in the administration expenses was mainly due to the increase in salary and wage expenses, directors' emoluments and provisions for doubtful debts.

Salaries and wage expenses increased from approximately HK\$81,000 for the First Relevant Period to approximately HK\$472,000 for the Second Relevant Period. The increase in salaries and wages of employees of the Group is a result of the increase in staff from 2 to 3 for the Second Relevant Period.

Directors' remuneration increased from approximately HK\$250,000 for the First Relevant Period to approximately HK\$623,000 for the Second Relevant Period. The increase in Directors' remuneration is the result of an increase in the Director's emolument of HK\$283,000 and an increase in the allowance of HK\$80,000 in the Second Relevant Period.

A total provision of HK\$214,000 was made on overdue receivable balances and the two claims on customers as set forth under heading "Customers" in this prospectus.

Net profit

During the Second Relevant Period, as a result of the increase in the Group's turnover, improved gross profit margins and effective control of the Group's costs, the net profit from ordinary activities of the Group for the Second Relevant Period increased to approximately HK\$717,000 in comparison to the loss of approximately HK\$6,240,000 during the corresponding period in 2001.

The Third Relevant Period

Turnover

The Group recorded a turnover of approximately HK\$822,000 for the three months ended 30th June, 2002. The income was derived from the provision of OAS and CMS services in Hong Kong.

The decrease in the annualised turnover was mainly due to a drop in both OAS and CMS income as a few significant one-off sales to customers in the Second Relevant Period, such as a CMS customer with income of HK\$857,000 and an OAS customer with income of HK\$800,000 were not noted in period.

Interest income

Interest income was derived from the saving account deposit of the Group. The decrease of interest income was due to the decrease of bank balance as compare to last year.

FINANCIAL INFORMATION

R&D expenses

Research and Development expenses amounted to approximately HK\$184,000 which mainly represented the software and website design expenses and staff salaries.

Selling expenses

For the period ended 30th June, 2002, the Group's selling expenses amounted approximately to HK\$48,000. The amount mainly included salaries to salesperson and expenses for promotion.

Administrative expenses

For the period ended 30th June, 2002, the Group's administration expenses amounted to approximately HK\$559,000. The administrative expenses mainly consisted of auditors' remuneration, printing & stationery, legal and professional fees, motor vehicle insurance expenses, staff salaries, director's emolument and telecommunication expenses. The increase in annualised expense was due to: (a) increase in audit fee accrual; (b) payment of monthly rental for the new office now using by the Group starting in this period; and (c) legal and professional fees incurred in the incorporation of the Company.

Taxation

Provision for Hong Kong Profits Tax amounted to HK\$13,000 has been provided for the period ended 30th June, 2002, Hong Kong Profits Tax was calculated at 16% of the estimated assessable profits for the period ended 30th June, 2002.

Net profit

During the Third Relevant Period, as a result of the slowdown in business volume and the fall in OAS and CMS income, the net profit margin has deteriorated and the net profit from ordinary activities of the Group decreased to approximately HK\$18,000.

TAXATION

No provision for Hong Kong profits tax has been made for the year ended 31st March, 2001 as the companies comprising the Group incurred losses during that year.

Hong Kong profits tax is calculated at 16% of the estimated profit for the year ended 31st March, 2002. The effective tax rate of 21% being higher than the normal tax rate of 16% was due to the HK\$289,000 deferred tax asset of Capital Automation Company Limited (formerly known as HK Concept Co) not yet been recognised in view of the uncertainty whether such benefits will be realised in the foreseeable future.

DIVIDENDS AND WORKING CAPITAL

Dividends

At present, the Directors do not intend to recommend any dividends for the year ended 31st March, 2002. The Directors expect interim and final dividends will be paid in February and October each year in the future and interim dividends will normally represent approximately one-third of the expected total dividends for each year. The declaration, payment and amount of dividends will be subject to the discretion of the Directors and will be dependent upon the Group's earnings, financial condition, cash requirements and availability, the provisions of relevant laws and all other relevant factors.

Working capital

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

DISTRIBUTABLE RESERVES

As at 30th June, 2002, the reorganisation of the Group had not been completed. There was accordingly no reserve available for distribution to the shareholders of the Company as at that date.

PROPERTY INTERESTS

The Group's head office in Hong Kong is located at 10th Floor, No. 99 Hennessy Road, Wan Chai, Hong Kong. The Group occupies a gross floor area of approximately 146 sq.m.. Such office premises are leased from Doveridge Company Limited, at a monthly rental of HK\$17,248 exclusive of rates and management charges.

In addition, the Group has rented Unit 2801 on 28th Floor of No. 99 Hennessy Road, Wan Chai, Hong Kong as office due to insufficient office space as a result of the Group's expansion plan with more staff recruited. The tenancy is for a term of twenty months commencing from 1st November, 2002 and expiring on 30th June, 2004 and the monthly rental is HK\$8,184 exclusive of rates and management charges. The gross floor area of this office premises is approximately 63 sq.m..

FINANCIAL INFORMATION

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is based on the audited combined net assets of the Group as at 30th June, 2002, as shown in the accountants' report set out in Appendix I to this prospectus, and adjusted as below:

	<i>HK\$'000</i>
Audited combined net assets of the Group as at 30th June, 2002	1,140
Unaudited combined loss of the Group for the four months ended 31st October, 2002 based on its unaudited management accounts	(333)
Estimated net proceeds of the New Issue	<u>16,000</u>
Adjusted net tangible assets	<u><u>16,807</u></u>
Adjusted net tangible assets per Share in HK cents (<i>Note</i>)	<u><u>3.5</u></u>

Notes: The adjusted net tangible asset value per Share is arrived at after making the adjustments referred to in this section and on the basis of a total of 480,000,000 Shares in issue and to be issued immediately following the completion of the Placing and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised) and takes no account of any Shares which may be issued pursuant to the exercise of any option granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Share Option Scheme, or of any Shares which may be issued or repurchased by the Company pursuant to the general mandates referred to Appendix IV to this prospectus.

If the Over-allotment Option is exercised in full or in part, the adjusted net tangible asset value per Share will decrease. However, the Directors are of the view that this will not have any material effect on the Shareholders.

If the option granted under the Pre-IPO Share Option Scheme are exercised in full, the adjusted net tangible asset value per Share will become 3.2 HK cents.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that since 30th June, 2002 (being the date to which the latest audited combined financial statements of the Group were made up), there has been no material adverse change in the financial or trading position or prospectus of the Group.

STATEMENT OF BUSINESS OBJECTIVES

BUSINESS OBJECTIVE AND STRATEGIES

In the light of the Group's progress and achievement over the Track Record Period, the Directors have confidence in the growth of the Group's business in the future and have determined to make the Group become an on-line rich media and content distribution solution provider in Asia with primary focus in Hong Kong. In order to achieve this business objective, the Directors have formulated the following strategies:

Continue to develop its CMS and i-tvc.net technologies as well as other rich media solutions

In order to further enhance its CMS and i-tvc.net technologies as well as other rich media content distribution solutions, the Group will continue to strengthen its R&D capabilities. The Directors intend to recruit ten additional programmers for the R&D team by March 2003, and to purchase new equipment and design tools to enhance the functions and features of the various products developed by the Group.

The Directors believe that ongoing R&D in new products and technologies is crucial in enhancing the Group's market position. The focus of the Group is to expand the i-tvServe.net capability by adding different components. By so doing, the Directors believe that both the technological strength and the business prospects of the Group will be further enhanced.

Develop new applications for connected mobile devices

The Group will continue to improve and develop new MAS products for connected mobile devices, with key initiatives in the development of applications that support 3G mobile phones and PDAs that can operate on different operating systems.

Enhance the infrastructure by expanding the capacity for delivering services

Development and application of up-to-date technology is a prerequisite to success in on-line rich media and content distribution solution business. In order to maintain its competitiveness, the Group will upgrade and enhance its infrastructure by acquiring additional computer servers and installing new computer hardware and software.

Marketing campaigns

The Group will implement a series of marketing activities to enhance the market awareness of the Group's products and services. The Directors plan to invest approximately HK\$1,000,000 in marketing activities for the period up to 30th September, 2005.

STATEMENT OF BUSINESS OBJECTIVES

Expand geographical presence through business alliances and achieve business growth through acquisitions of complementary companies

The Directors have selected certain regions with high-growth potential, such as the PRC and some Asian countries, to promote and market its products and services through signing up with local solution providers and existing on-line advertising agencies. In order to expand its business geographically, the Group plans to form strategic/business alliances with companies and business partners in their respective industries to strengthen the Group's R&D capabilities and to gain access to different sales channels.

The Directors consider that acquisitions of companies with complementary companies business, such as content delivery and distribution programming houses, rich media graphic design houses or other rich media and content distribution solutions' providers, will create synergy to the Group's business. **Nevertheless, at the Latest Practicable Date, the Directors did not identify/or invest in any potential acquisition target nor did they identify any business alliance partner.**

High Potential Sub-segments in the Business Segment

The Group intends to develop new relationships with companies that can enhance the marketability of its proprietary on-line advertising technologies for rich media (i.e. i-tvc.net, i-tvServe.net), MAS and CMS. These include:

- Music production house
- Film makers
- TV channel news web site
- Media agencies
- Event management web site
- Modeling agencies
- Financial news web site
- Sports and entertainment web site
- Recruitment consultants
- Human resource solution companies
- Small and medium enterprise
- Trading companies

STATEMENT OF BUSINESS OBJECTIVES

- Education and training companies
- E-commerce web sites
- Telecommunication companies
- WAP portal

Marketing, Distributing and Branding Strategies

Marketing Strategy

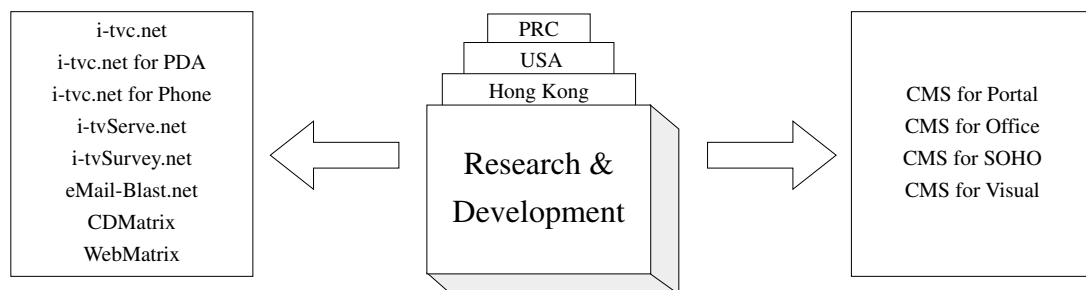
Since most of the Group's products can be bundled with the off-line services of media agencies, the Directors consider that the establishment of an extensive network with solution providers and media agencies is crucial in enhancing the revenue generating capability of the Group. By channeling its products through third parties, the Group can save effort substantially in either the promotion or the building and managing of the internal sales force. The Group will continue to get product reviews, publicity and products launches as part of the overall marketing programme to arouse the media agencies' awareness of the Group's product.

Branding Strategy

The Directors believe that the Group's brand name "i-tvc.net" has become increasingly well recognised within the rich media advertising community in South-East Asia region. The Group will continue to leverage this branding success in all of its future marketing strategies.

Product Development Strategy

The following figure illustrates the Group's five years product development plan as at the Latest Practicable Date:



Product Roadmap: i-tvc.net

The Group is currently developing new versions of i-tvc.net player which operates on PDAs (Pocket PC, etc.) to complement the Flash version which operates on virtually all browsers in all operating systems.

STATEMENT OF BUSINESS OBJECTIVES

The Group intends to develop another new version of i-tvc.net which operates on mobile phones, taking the advantage of the 3G technology. The Directors believe that this product will expand the application of the technology from advertisement to mobile entertainment and will enable the company to explore the pay per use revenue scheme.

The Group intends to start developing an interactive gaming platform based on the i-tvc.net and i-tvServe.net

Product Roadmap: i-tvServe.net

The Group is currently enhancing its i-tvServe.net on-line advertising server to improve the performance and expandability in delivering on-line advertisements such as buttons, banners, animated creative and TVCs. The Group is also improving the requisition ability of the server which allows advertisers to track on-line behaviour of their customers.

In addition to data collection from users on the duration of creative access, the type of browser, the I.P. and etc., the Group is also expanding the capability of the i-tvServe.net server to recognise users from different geographic locations.

The current i-tvServe.net server is running on Linux and the Company is in the process of formulating the development of a Windows.NET version to be released in 4Q of 2003. The Directors believe that this product will expand to portal market segments where Microsoft technologies are used.

Product Roadmap: i-tvSurvey.net

The Group is developing a new Internet form data acquisition and analysis product, i-tvSurvey.net, which is an extension product of i-tvServe.net. This new product fully utilises the User Behaviour Analysis (“UBA”) module in i-tvServe.net to produce real-time statistic report from data collected and analysed them from data collected by i-tvSurvey.net.

The Group intends to market this product to i) agencies, end-users, portal operations; and, ii) enterprises of any size. The Directors believe the product will be widely accepted by the first group of users as the current technology can only accommodate data collection but not data analysis. As such, advertisers have to undergo a separate process so as to analyse the data days or weeks after the campaign. The Directors also believe the product will be widely accepted by the latter group of users due to the same reason and that inquiry forms are already widely used in enterprise websites.

Product Roadmap: eMail-Blast.net

The Group is developing a new eMail marketing product, eMail-Blast.net, which is expected to be completed by 3Q of 2002. The new product is a server-side system that distributes eMail advertisements and newsletters to users in the Group’s database, with approximately 50,000 existing individual email addresses in Hong Kong and over 1 million worldwide. Content owners can also supply their own databases for eMail-Blast.net.

STATEMENT OF BUSINESS OBJECTIVES

The Group intends to acquire more email addresses through user list acquisition and partnership with list owners. The Group also intends to invest additional hardware and enhance software capability in anticipation for the increasing demand in 2Q of 2003.

After the above plans have been implemented, the Group will consider incorporating its UBA module in eMail-Blast.net to support real-time statistics report and enhance targeting capabilities.

Product Roadmap: CDMatrix

The Group intends to commercialise the CDMatrix, a multimedia presentation creation tool, by the end of September 2003. The Group has been using the CDMatrix product to create many of its projects since 2000, and decided to enhance interface and usability to launch this product as a web-based application. The Group intends to charge users based on a pay per use scheme.

Product Roadmap: WebMatrix

Following the anticipated launch of CDMatrix before the end of September 2003, the Group intends to modify output format of CDMatrix and to develop additional templates to enhance the product for the output of mini Web Sites in addition to multimedia presentation. The Group intends to name the product WebMatrix and commercialise it before the end of March 2004.

Product Roadmap: CMS

The Group is currently enhancing features of the CMS and anticipates that such process will be completed by the end of December 2002. One of the key enhancements is to incorporate some features of i-tvServe.net and i-tvc.net to enable the system to broadcast short videos and on-line advertisements. These function cannot be supported by most of the existing content management systems.

The Group intends to launch a new version called CMS for SOHO (Content Management Solutions for Small Office/Home Office) before the end of March 2003 to enhance flexibility and manageability of small business websites. The Directors believe that with the market and price planning, this untapped market will generate significant amount of recurring monthly income for the Group.

Operating Strategy

As concern the Group's operating strategy, the Group will maintain the present operating structure and open its offices in the United States and the PRC as and when needed, to support its sales and marketing activities. For those countries with wide geographic spread, the Group will consider using independent solution providers to implement in-market sales and marketing activities. The Directors believe that the effective use of Internet platform and eCommerce implementation manifest an effective and efficient organization and management structure. As such, the Group intends to further enhance and upgrade its Internet platform/website and service support platform to capture more business from the internet viewers as well as to improve quality of communication with the Group's solution providers and agencies.

STATEMENT OF BUSINESS OBJECTIVES

IMPLEMENTATION PLANS

	Product and Technology	Marketing	R&D upgrades	Enhancement of i-tvc.net and i-tvServe.net platform
Period 1 From the Latest Practicable Date to March 2003	Product enhancement and continue development: i-tvc.net i-tvc.net for PDA i-tvc.net for Phone	On-Line Advertising Technologies: - To nurture and cultivate market acceptance of i-tvc.net,	Increase in the headcount of programmers and designers depending on the progress of product development and technological research from time to time	Upkeeping of existing platform. In particular, efforts will be made to continue to revamp and/or enhance the existing systems
Human Resources Addition:	i-tvServe.net i-tvSurvey.net	i-tvServe.net and CMS line of products		
Sales & Marketing	2 eMail-Blast.net CDMatrix	Customer Support		
Finance & Administration	2 CMS for Portal CMS for Office	- To improve customer support network		
Programmers	10 CMS for Visual			
Designers	<u>2</u>			
Total	<u>16</u>			
Period 2 Six months ending September 2003	Product enhancement and continue development: i-tvc.net i-tvc.net for PDA i-tvc.net for Phone	On-Line Advertising Technologies: - Continue to penetrate into this market segment	Install more development tools and hire more programmers to increase product development speed	System software and infrastructure improvements are expected to continue as appropriate
Human Resources Addition:	i-tvServe.net i-tvSurvey.net	Solution Providers:	Setting up development office in the United States to further customise the Group's products in the United States market	Install additional servers in the United States to fulfill new client and to prepare anticipated demand increase from the United States market
Sales & Marketing	2 eMail-Blast.net CD Matrix	- Organize seminars and training classes to recruit independent solution providers so as to expand the market of the Company's products		
Finance & Administration	1 Web Matrix			
Programmers	<u>5</u> CMS for Portal CMS for Office			
Total	<u>8</u> CMS for SOHO CMS for Visual	Small Office/Home Office and SME: - To start marketing campaign for CMS for SOHO		

STATEMENT OF BUSINESS OBJECTIVES

	Product and Technology	Marketing	R&D upgrades	Enhancement of i-tvc.net and i-tvServe.net platform
Period 3	Product enhancement and continue development:	Continue to create brand name awareness through promotional activities, marketing campaigns and conferences to strengthen its established foothold and to penetrate further into the on-line advertising industry, SMEs and Portal operators	Explore the opportunities in forming alliances with international high-tech and/or research companies	Examine the possibility of implementing an online real time help function to facilitate the international customer services
Six months ending March 2004	i-tvc.net			
Human Resources Addition:	i-tvc.net for PDA			
	i-tvc.net for Phone			
	i-tvServe.net			
Sales & Marketing	2 i-tvSurvey.net		Explore the possibilities and feasibility of collaborating with outside consultancy to broaden the exposures of the Group's products	Study on the implementation of additional security measure on the platform
Designers	2 eMail-Blast.net			
	2 CDMatrix			
Total	4 Web Matrix			
	4 CMS for Portal			
	4 CMS for Office			
	4 CMS for SOHO			
	4 CMS for Visual			
		Solution Providers and Consultants: - Start promoting solution provider and consultant channels	Install additional servers in the United States and China to fulfill the needs of new client and to prepare anticipated increase in demand from the United States and the PRC market	Research on the development of country specific platform for potential target countries such as the PRC, Japan and Korea

STATEMENT OF BUSINESS OBJECTIVES

		Product and Technology	Marketing	R&D upgrades	Enhancement of i-tvc.net and i-tvServe.net platform
Period 4		Product enhancement and continue development:	Continue to assist the management team in formulating/refining its long and medium term business and marketing strategies	Continue to strengthen and improve quality of the core research and development team by means of providing continuous training to the existing programmers and recruitment of experienced programmers and designers as and when appropriate	Explore the opportunities and feasibility of alliance with other on-line businesses, including but not limited to, PC manufacturers, hosting companies and advertising agencies
Six months ending September 2004		i-tvc.net			
Human Resources Addition:		i-tvc.net for PDA			
		i-tvc.net for Phone			
Sales & Marketing	2	i-tvSurvey.net	Research to be conducted to evaluate and identify the possibilities of establishing supporting operations in individual countries to provide more support to local solution providers and further reaching out to end-users		
Finance & Administration	2	eMail-Blast.net			
		CDMatrix			
Programmers	5	Web Matrix			Explore the feasibility of launching additional language support on platform
Designers	2	CMS for Portal			
		CMS for Office			
Total	<u>11</u>	CMS for SOHO		Explore the feasibility of the establishment of an additional research and development centre in the PRC to tailor made solutions for specific individual market	
		CMS for Visual	Continue to explore additional value-added services to be offered to solution providers and end-users including but not limited to, financing, technical support and sales & marketing consultancy	Continue to improve existing facilities	
				Continue to hire designers to enhance product interface of the Group's products	

STATEMENT OF BUSINESS OBJECTIVES

		Product and Technology	Marketing	R&D upgrades	Enhancement of i-tvc.net and i-tvServe.net platform
Period 5		Product enhancement and continue development:	Continue to create brand name awareness through promotional activities, marketing campaigns and conferences to strengthen its established foothold and to penetrate further into the on-line advertising industry, SMEs and Portal operators	Install and hire more development tools and programmers to increase the speed of product development and to enhance the establishment of a new development centre	To form alliance with other on-line businesses, including but not limited to PC manufacturers, hosting companies and advertising agencies
Six months ending March 2005		i-tvc.net			
		i-tvc.net for PDA			
Human Resources Addition:		i-tvc.net for Phone			
		i-tvServe.net			
Sales & Marketing	2	i-tvSurvey.net			
		eMail-Blast.net			Launch additional language support on platform
Finance & Administration	2	CDMatrix		Establishment of research and development centre in the PRC to tailor made solutions for specific individual market	
		Web Matrix			
Programmers	<u>16</u>	CMS for Portal			Install additional servers in the Europe and Japan to fulfill the needs of new client and to prepare anticipated increase in demand from the European and Japanese markets
		CMS for Office			
Total	<u><u>20</u></u>	CMS for SOHO	Continue to improve customer support network by hiring additional staff and upgrading of help desk system to automate customer services and prepare for international support network	Form alliances with international high-tech and/or research companies to expand capability of the Group's products	
		CMS for Visual	Continue to explore additional value-added services to be offered to solution providers and end-users including, but not limited to, financing, technical support and sales & marketing consultancy		

STATEMENT OF BUSINESS OBJECTIVES

	Product and Technology	Marketing	R&D upgrades	Enhancement of i-tvc.net and i-tvServe.net platform
Period 6	Product enhancement and continue development:	Continue to assist the management team in formulating/refining its long and medium term business and marketing strategies	Continue to strengthen and improve quality of the core research and development team, by means of continuous training of existing programmers and recruitment of experienced programmers as and when appropriated	Implement an on-line real time help function to facilitate international customer services
Six months ending September 2005	i-tvc.net			
Human Resources Addition:	i-tvc.net for PDA			
	i-tvc.net for Phone			Implement additional security features to utilise future technologies available
Sales & Marketing Programmers	6 4	Establishment of supporting operations in individual countries to provide more support to local solution providers and further reaching out to end-users		
Total	10	Commit further marketing and promotion efforts in i-tvc.net for Phone and PDA in expectation of wider acceptance of 3G services	Expand the research and development centre in the PRC to tailor made solutions for specific individual market as well as to provide tools for outside consultants to incorporate the Group's product more easily in order to broaden the exposures of the Group's products	System software and infrastructure improvements are expected to continue as appropriated
		Train local solution providers to cross-sale products of the Group	Continue to improve existing facilities	

STATEMENT OF BUSINESS OBJECTIVES

BASES AND ASSUMPTIONS

The Directors have assessed the potential of the market as identified in the Group's statement of active business pursuits during the Forward Looking Period and formulated the proposed strategies to achieve the Group's business objectives on the basis of past industry trend, as well as anticipated future growth and expected demand based on the Directors' past experience, and the Directors have made the following principal assumptions in making such assessment and formulation.

1. The Group is not adversely affected by any of the risk factors set out under 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 these business objectives are subject to revision or adjustment by the Group from time to time in light of factors such as changes in market conditions, market response to particular products or services 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 R&D of any of its new products.
4. The Group is not materially adversely affected by any change in political, legal, fiscal or economic conditions in the markets under which it operates or intends to operate.
5. The Group is not materially adversely affected by any change in legislation, rules or regulations in the markets where the Group is established or intends to expand into.
6. The business to be carried out by the Group in the PRC is not prohibited or restricted by any other relevant laws or regulations. Should the Group's business in the PRC be prohibited or restricted in any respect, the Group may not be able to carry out the business objectives as herein stated.
7. The growth of on-line advertising will continue and is sustainable.
8. Necessary co-operation and approvals are received from the Group's business partners and relevant government authorities.

USE OF NET PROCEEDS FROM THE NEW ISSUE

Given the competitiveness and the fast changing characteristics of the Internet industry, there is an urgent need for the Group to develop new products and to update its existing proprietary applications. In addition, the Directors perceive increasing business opportunities in the Asia-Pacific markets because of the continuous developments in on-line rich media and content distribution solution business. In order to uphold the Group's competencies and to explore these markets, the net proceeds from the New Issue, which are estimated to be approximately HK\$14.6 million (assuming the Over-allotment Option is not exercised), will be used to implement the strategic plans as follows:

- as to approximately HK\$3.6 million for the purchase of design and development tools and the recruitment of additional staff to develop and enhance its CMS and i-tvc.net technologies and the R&D capability of new rich media solutions;
- as to approximately HK\$3.6 million for the purchase of development tools and the recruitment of additional staff to facilitate the development of new MAS for connected mobile devices, with key initiatives in the development of applications that support 3G mobile phones and PDAs that operates on different operating systems;
- as to approximately HK\$1.7 million for the enhancement of the infrastructure of the Group to expand the capacity for delivering services, including acquisition of additional servers, computer hardware and software;
- as to approximately HK\$1 million for brand-building and marketing campaigns;
- as to approximately HK\$1.7 million for the expansion of the Group's geographical presence in markets in Asia by forming strategic and business alliances with companies and business partners in different countries and to achieve business growth through acquisitions of complementary companies; and
- as to the balance of approximately HK\$3 million for additional working capital of the Group.

Should the Over-allotment Option be exercised in full, the Group will receive additional net proceeds of approximately HK\$3 million, which together with the net proceeds from the New Issue, after deducting related expenses, will amount to approximately HK\$17.6 million. The Directors intend to allocate the additional proceeds raised from the exercise of the Over-allotment Option of approximately HK\$3 million pro-rata to the above-mentioned purposes.

It is currently estimated that the net proceeds from the New Issue, the cash in bank or on hand as at the Latest Practicable Date together with the projected cashflow from operations will be sufficient for the Group to carry out its business plans up to the year ending 30th September, 2005. In the event that the Group cannot attain its projected level of cashflow, the Group may be required to raise additional funding through, among other sources, the equity and debt markets and bank financings or a combination of both. However, there is no assurance that the Group will be able to raise such additional funding, details of which are set out under "The Group's inability to obtain adequate funding in the future" under the section headed "Risk factors" in this prospectus.

USE OF NET PROCEEDS FROM THE NEW ISSUE

To the extent that the net proceeds from the New Issue are not immediately used for the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short-term interest bearing deposits with authorised financial institutions in Hong Kong.

SCHEDULE OF USE OF NET PROCEEDS FROM THE NEW ISSUE

Set out below is a table summarising the intended timing of the use of the net proceeds from the New Issue. Such time-table only represents the best estimates made by the Directors based on the subsisting facts and circumstances. There is no assurance that the following table will be strictly adhered to though an announcement will be made by the Company in case of material deviation.

	From the Latest Practicable Date to		For the six months ending				Total
	31st March, 2003	30th September, 2003	31st March, 2004	30th September, 2004	31st March, 2005	30th September, 2005	
R&D to enhance CMS, i-tvc.net technologies and rich media solutions	0.2	0.9	0.9	0.7	0.5	0.4	3.6
Develop new MAS applications	0.2	0.9	0.9	0.7	0.5	0.4	3.6
Enhancement of the infrastructure	0.2	0.8	0.4	0.2	0.1	—	1.7
Brand-building and marketing	0.1	0.3	0.2	0.2	0.1	0.1	1
Geographical business expansion and acquisitions of complementary companies	0.2	0.4	0.4	0.4	0.2	0.1	1.7
Working capital	<u>0.8</u>	<u>0.8</u>	<u>0.6</u>	<u>0.4</u>	<u>0.2</u>	<u>0.2</u>	<u>3</u>
	<u>1.7</u>	<u>4.1</u>	<u>3.4</u>	<u>2.6</u>	<u>1.6</u>	<u>1.2</u>	<u>14.6</u>

UNDERWRITING

UNDERWRITERS

Placing Underwriters

Kingston
South China Securities
Luen Fat Securities Company Limited
Mayfair Securities Limited
Sun Growth Securities Limited

UNDERWRITING ARRANGEMENTS

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the New Shares for subscription and the Vendor is offering the Sale Shares for sale under the Placing. Subject to the GEM Listing Committee granting the listing of, and the permission to deal in, the Shares and any Shares which may fall to be issued upon the exercise of the Over-allotment Option and any option granted or to be granted under the Pre-IPO Share Option Scheme and the Share Option Scheme, respectively, on or before 22nd December, 2002 and to certain other conditions set out in the Underwriting Agreement, the Placing Underwriters have severally agreed to procure subscribers or purchasers for the Placing Shares on and subject to the terms and conditions of the Underwriting Agreement.

Grounds for termination

The obligations of the Placing Underwriters to subscribe or purchase or procure subscribers or purchasers for the Placing Shares are subject to termination by notice in writing from Kingston (for itself and on behalf of the Placing Underwriters) if any of the following events occur prior to 9:00 a.m. on the date on which certificates for the Placing Shares are scheduled to be despatched to the placees under the Placing

1. if there has come to the notice of Kingston (for itself and on behalf of the Placing Underwriters) that:
 - (A) any matters have arisen or have been discovered which would, if this prospectus was to be issued at that time, constitute material omission therefrom;
 - (B) any matters have arisen or have been discovered rendering or there comes to the notice of Kingston or any of the Placing Underwriters any matter or event showing any of the representations and warranties contained in the Underwriting Agreement to be untrue, inaccurate or misleading in any material respect;
 - (C) any material breach on the part of the Company, the executive Directors and/or the covenants (as named in the Underwriting Agreement) of any of the provisions in the Underwriting Agreement in any respect; or
 - (D) any statement contained in this prospectus has become or has been discovered to be untrue, incorrect or misleading in any material respect.

UNDERWRITING

2. there shall develop, occur or come into effect:
- (A) any material adverse change or development involving a prospective change in, or any event or series of events resulting or likely to result in any material change in local, national, international, financial, political, military, industrial, legal, fiscal, economic, regulatory or stock market conditions in Hong Kong, the BVI or the Cayman Islands;
 - (B) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange or GEM, due to exceptional financial circumstances or otherwise;
 - (C) any material adverse change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) or foreign investment regulations in Hong Kong, the BVI or the Cayman Islands;
 - (D) any imposition of economic sanctions, in whatever form, by the United States on Hong Kong;
 - (E) the outbreak or escalation of hostilities involving the PRC or Hong Kong;
 - (F) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock out;
 - (G) any new law or regulation or any material change in the existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of Hong Kong, the BVI or the Cayman Islands;
 - (H) any material adverse change or development in the conditions of local, national or international equity securities or other financial markets; or
 - (I) any material adverse change or prospective material adverse change in the business or in the financial or trading position of the Group,

which, in the sole and reasonable opinion of Kingston (for itself and on behalf of the Placing Underwriters):

- (A) in the case of paragraphs 2(A) to (H) above, is or will or is likely to be materially adverse to the business, financial or other condition or prospects of the Group taken as a whole;
- (B) has or will have or is likely to have a material and adverse effect on the success of the Placing or the level of Shares being applied for or accepted or the distribution of Shares; or
- (C) makes it inadvisable or inexpedient to proceed with the Placing or the delivery of the Placing Shares on the terms and in the manner contemplated by this prospectus;

then Kingston (for itself and on behalf of the Placing Underwriters) may, upon giving written notice to the Company, terminate the Underwriting Agreement.

UNDERWRITING

Undertakings

The Initial Management Shareholders have given non-disposal undertakings, details of which are set out in the section headed “Substantial shareholders, Initial Management Shareholders and significant shareholder”.

Each of the Company, Mr. Chan, the Vendor and the executive Directors (the “Covenantors”) has undertaken to the Co-Lead Managers (for themselves and on behalf of the Placing Underwriters) that the Company will not and he/she/it will procure the Company not to, without the prior written consent of the Co-Lead Managers and unless in compliance with the GEM Listing Rules, during the period from the Listing Date up to the expiry of six months from the Listing Date, issue or agree to issue any Shares or other securities (including warrants or other convertible securities) of the Company other than the Placing Shares, any Shares to be issued pursuant to the Capitalisation Issue or any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or the exercise of options granted under the Pre-IPO Share Option Scheme or the grant of options under the Share Option Scheme.

Each of the Covenantors has undertaken to and covenanted with the Co-Lead Managers (for themselves and on behalf of the Placing Underwriters) that save with the prior written consent of the Co-Lead Managers (for themselves and on behalf of the Placing Underwriters) (such consent not to be unreasonably withheld or delayed), no company in the Group will within the period of six months from the Listing Date purchase any securities of the Company.

COMMISSION AND EXPENSES

The Placing Underwriters will receive a commission of 7% of the aggregate Placing Price. South China Capital will, in addition, receive an advisory and documentation fee as the Sponsor to the Placing. Such fees and commission, together with Stock Exchange listing fees, SFC transaction levy, Stock Exchange trading fee, legal and other professional fees, printing and other expenses relating to the Placing, are currently estimated to be approximately HK\$8 million in aggregate assuming that the Over-allotment Option is not exercised, and are payable as to 66.7% by the Company and as to 33.3% by the Vendor.

PLACING UNDERWRITERS' INTERESTS IN THE COMPANY

Save as disclosed in this prospectus and as contemplated pursuant to the Underwriting Agreement, none of the Placing Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

SPONSOR'S AGREEMENT

Under a sponsor's agreement dated 22nd November, 2002 entered into between South China Capital and the Company (the “Sponsor Agreement”), the Company appoints South China Capital, and South China Capital agrees, to act as the continuing sponsor to the Company for the purpose of the GEM Listing Rules for the remaining current financial year and for a period of two financial years thereafter or until the Sponsor Agreement is otherwise terminated upon the terms and conditions set out therein.

UNDERWRITING

SPONSOR'S INTEREST IN THE COMPANY

Save for its obligations under the Underwriting Agreement and the Sponsor Agreement, and interests in securities that may be subscribed for or purchased pursuant to the Placing, neither South China Capital nor its associates have 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).

No director or employee of South China Capital who is 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 Company (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for or purchased by any such director or employee pursuant to the Placing).

Neither South China Capital nor 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 by South China Securities, being one of the Co-Lead Managers, and the financial advisory fee to be received by South China Capital.

No director or employee of South China Capital has a directorship in the Company or any other company in the Group.

STRUCTURE AND CONDITIONS OF THE PLACING

PLACING PRICE

Based on the Offer Price of HK\$0.25 per Share, plus 1% brokerage, 0.007% SFC transaction levy and 0.005% Stock Exchange trading fee, one board lot of 8,000 Shares will amount to a total of HK\$2,020.24.

CONDITIONS OF THE PLACING

Acceptance of all applications for the Placing Shares in the Placing are conditional upon:

(a) **Listing**

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

(b) **Underwriting Agreement**

the obligations of the Sponsor and the Placing Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, following the waiver of any condition(s) by the Co-Lead Managers for and on behalf of the Placing Underwriters) and the Underwriting Agreement not being terminated in accordance with its terms or otherwise,

In each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 22nd December, 2002, being the date which is 30 days after the date of this prospectus.

THE PLACING

The Company is initially offering the New Shares for subscription and the Vendor is offering the Sale Shares for sale under the Placing. The Placing Shares are fully underwritten by the Placing Underwriters subject to the terms and conditions of the Underwriting Agreement.

It is expected that the Placing Underwriters or selling agents nominated by them will conditionally place the Placing Shares on behalf of the Company at the Offer Price with professional, institutional and/or other investors in Hong Kong, subject to certain restrictions. Such professional, institutional and other investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

STRUCTURE AND CONDITIONS OF THE PLACING

OVER-ALLOTMENT OPTION

Pursuant to the Underwriting Agreement, the Company has granted to the Placing Underwriters, exercisable by South China Capital (on behalf of the Placing Underwriters), the Over-allotment Option at any time within 30 days from the date of this prospectus to cover over-allocations in the Placing. The Over-allotment Option requires the Company to issue and allot at the Offer Price up to an aggregate of 12,000,000 additional Shares, representing 10% of the number of Placing Shares, to cover over-allocations in the Placing. The number of Shares over-allocated will not be greater than the number of Shares which may be issued upon exercise of the Over-allotment Option. South China Capital may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or by a combination of purchases in the secondary market and exercise of the Over-allotment Option either in part or in full. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

Assuming the Over-allotment Option is exercised in full, a total of 132,000,000 Placing Shares will be offered under the Placing, representing approximately 26.8% of the issued share capital of the Company as enlarged by the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made by the Company on the GEM website. In order to facilitate settlement of over-allocations in connection with the Placing and the distribution of Shares under the Placing, South China Capital and City Pacific Ventures Limited have entered into a stock borrowing arrangement pursuant to which City Pacific Ventures Limited has agreed to lease to South China Capital the Shares held by it up to 12,000,000 Shares on the following terms:

1. the borrowed Shares will only be used to settle over-allocations in the Placing;
2. the same number of Shares must be returned to City Pacific Ventures Limited and redeposited with the escrow agent, no later than three business days following the earlier of:
 - a. the last day on which the Over-allotment Option may be exercised; and
 - b. the date on which the Over-allotment Option is exercised in full, whichever is earlier; and
3. no payment or any benefit in kind will be made by South China Capital to City Pacific Ventures Limited in respect of the stock borrowing arrangement.

STABILISATION

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

STRUCTURE AND CONDITIONS OF THE PLACING

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, an underwriter may bid for or purchase the offered securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial offer price of the securities. The stabilisation price will not be higher than the Offer Price. Stabilisation is not a practice commonly associated with the distribution of securities in Hong Kong. Should stabilising transactions be effected in connection with the distribution of the Placing Shares, they will be done at the direction, and in the absolute discretion, of South China Capital. In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where underwriters genuinely purchase Shares in the secondary market effected solely for the purpose of covering over-allocations in the offering. The relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

BASIS OF ALLOCATION

Allocation of the Placing Shares to investors pursuant to the Placing is based on a number of factors including the level and timing of demand and whether or not it is expected that the relevant investors are likely to buy further Shares, or to hold or sell its Shares, after listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares or the establishment of a solid and broad Shareholder base to the benefit of the Company and the Shareholders as a whole.

The following is the text of a report prepared for the purpose of incorporation in the prospectus received from the reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

德勤 • 關黃陳方會計師行

Certified Public Accountants
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香港中環干諾道中 111 號
永安中心 26 樓

Deloitte Touche Tohmatsu

22nd November, 2002

The Directors
AGL MediaTech Holdings Limited
South China Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding AGL MediaTech Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the two years ended 31st March, 2002 and the three months ended 30th June, 2002 (the “Relevant Periods”) for inclusion in the prospectus of the Company dated 22nd November, 2002 (the “Prospectus”).

The Company was incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2002 Revision) of the Cayman Islands on 28th May, 2002. Through a corporate reorganisation, as more fully explained in the paragraph headed “Reorganisation” in Appendix IV of the Prospectus (the “Corporate Reorganisation”), the Company has since 23rd October, 2002 become the holding company of the Group.

As at the date of this report, the particulars of the Company’s subsidiaries are as follows:

Name of company	Place and date of incorporation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
Art Global Limited (“Art Global”)	Hong Kong 8th June, 2001	Ordinary shares HK\$10,000	—	100%	Provision of on-line advertising solutions (“OAS”), mobile advertising solutions (“MAS”) and content management solution (“CMS”)

Name of company	Place and date of incorporation	Issued and fully paid share capital	Proportion of nominal value of issued capital held by the Company		Principal activities
			Directly	Indirectly	
i-tvc.net (HK) Limited	Hong Kong 8th May, 2002	Ordinary shares HK\$10,000	—	100%	Provision of subcontracting services*
i-tvc.net Limited	Hong Kong 28th January, 2002	Ordinary shares HK\$2,000	—	100%	Intellectual properties holding*
Yorkmax Investments Ltd (“Yorkmax”)	British Virgin Islands 24th April, 2001	Ordinary shares US\$1,500	100%	—	Investment holding

* being the intended principal activity of the company

Capital Automation Company Limited (“Capital Automation”, formerly known as Hong Kong Concepts Co. Limited) is a company incorporated in Hong Kong on 8th March, 2000 (date of incorporation). Capital Automation did not carry out any business during the period from 8th March, 2000 to 31st March, 2000. However, it carried on the business of provision of OAS, MAS and CMS (the “Relevant Business Operations”) from 1st April, 2000 until 23rd June, 2001, on which date, the Relevant Business Operations were transferred to Art Global. As Mr. Chan and Mr. N. H. Chan (as defined in the Prospectus) controlled Capital Automation before the transfer and continue to control Art Global after the transfer, for the purpose of presenting the financial results and cash flows of the Relevant Business Operations in this report, the operations of Capital Automation for the period from 1st April, 2000 to 23rd June, 2001 are deemed to have been carried on by Art Global.

No audited financial statements have been prepared for the Company, i-tvc.net Limited and i-tvc.net (HK) Limited because their first financial year end will be 31st March, 2003. No audited financial statements have been prepared for Yorkmax as it was incorporated in a country where there are no statutory audit requirements. We have, however, reviewed all significant transactions of these companies since their respective dates of incorporation.

We have acted as auditors of Capital Automation for the period from 8th March, 2000 (date of incorporation) to 31st March, 2001 and for the period from 1st April, 2001 to 23rd June, 2001. We also acted as auditors of Art Global for the period from 8th June, 2001 (date of incorporation) to 31st March, 2002 and the three months ended 30th June, 2002.

For the purpose of this report, we have examined the audited financial statements referred to above or, where applicable, management accounts of the other companies now comprising the Group, for the Relevant Periods, or since their respective dates of incorporation to 30th June, 2002, where this is a shorter period, in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” as recommended by the Hong Kong Society of Accountants.

The financial information of the Group for the Relevant Periods set out in this report has been prepared from the audited financial statements or where applicable, management accounts of the companies comprising the Group and Capital Automation (the “Underlying Financial Statements”), on the basis set out in note 1 to Section A below after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an opinion on the financial information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 1 to Section A below, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31st March, 2001, 31st March, 2002 and 30th June, 2002 and of the combined results and combined cash flows of the Group for each of the two years ended 31st March, 2002 and the three months ended 30th June, 2002.

A. FINANCIAL INFORMATION OF THE GROUP

COMBINED INCOME STATEMENTS

		Year ended 31st March,		Three months ended
	Notes	2001	2002	30th June, 2002
		HK\$'000	HK\$'000	HK\$'000
Turnover	3	3	3,781	822
Other operating income		1	—	—
Interest income		256	11	—
Research and development expenditures		(5,991)	(867)	(184)
Selling expenses		(146)	(176)	(48)
Administrative expenses		(360)	(1,838)	(559)
(Loss) profit from operations	4	(6,237)	911	31
Finance costs	5	(3)	(1)	—
(Loss) profit before taxation		(6,240)	910	31
Taxation	6	—	(193)	(13)
Net (loss) profit for the year/period		<u>(6,240)</u>	<u>717</u>	<u>18</u>
Dividend	9	<u>—</u>	<u>—</u>	<u>—</u>
(Loss) earnings per share, in HK cents	10			
Basic		<u>(1.60)</u>	<u>0.18</u>	<u>0.005</u>
Diluted		<u>(1.60)</u>	<u>0.17</u>	<u>0.004</u>

There were no recognised gains or losses other than net (loss) profit for the year/period.

BALANCE SHEETS

		Capital Automation as at 31st March, 2001 HK\$'000	Combined as at 31st March, 30th June, 2002 2002 HK\$'000 HK\$'000	
	<i>Notes</i>			
Non-current assets				
Property, plant and equipment	11	22	454	463
Current assets				
Other investment	12	—	1	—
Trade and other receivables	13	3	1,070	2,761
Amount due from a related company	14	—	100	—
Bank balances and cash		4,740	41	346
		<u>4,743</u>	<u>1,212</u>	<u>3,107</u>
Current liabilities				
Other payables and accrued charges		31	174	420
Amount due to a director	15	4,538	277	1,804
Amount due to a related company		936	—	—
Taxation payable		—	139	150
		<u>5,505</u>	<u>590</u>	<u>2,374</u>
Net current (liabilities) assets		<u>(762)</u>	<u>622</u>	<u>733</u>
Total assets less current liabilities		<u>(740)</u>	<u>1,076</u>	<u>1,196</u>
Non-current liabilities				
Deferred taxation	16	—	54	56
Amount due to a shareholder	17	5,500	—	—
		<u>5,500</u>	<u>54</u>	<u>56</u>
		<u>(6,240)</u>	<u>1,022</u>	<u>1,140</u>
Capital and reserve				
Share capital	18	—	12	112
Accumulated (loss) profit	19	(6,240)	1,010	1,028
		<u>(6,240)</u>	<u>1,022</u>	<u>1,140</u>

COMBINED CASH FLOW STATEMENTS

	Year ended 31st March,		Three months ended
	2001	2002	30th June, 2002
	HK\$'000	HK\$'000	HK\$'000
Cash flows from operating activities			
(Loss) profit before taxation	(6,240)	910	31
Adjustments for:			
Depreciation	1	49	27
Interest income	(256)	(11)	—
Interest expenses	3	1	—
	<u> </u>	<u> </u>	<u> </u>
Operating (loss) profit before working capital changes	(6,492)	949	58
Increase in trade and other receivables	(3)	(1,067)	(1,691)
(Increase) decrease in amount due from a related company	—	(100)	100
Increase in other payables and accrued charges	31	143	246
Increase (decrease) in amount due to a related company	936	(936)	—
Absorbed by Capital Automation	—	6,533	—
	<u> </u>	<u> </u>	<u> </u>
Cash (used in) generated from operations	(5,528)	5,522	(1,287)
Interest paid	(3)	(1)	—
	<u> </u>	<u> </u>	<u> </u>
Net cash (used in) generated from operating activities	<u>(5,531)</u>	<u>5,521</u>	<u>(1,287)</u>
Cash flows from investing activities			
Acquisition of an other investment	—	(1)	—
Purchase of property, plant and equipment	(23)	(499)	(36)
Proceeds from disposal of an other investment	—	—	1
Proceeds from disposal of property, plant and equipment	—	18	—
Interest received	256	11	—
	<u> </u>	<u> </u>	<u> </u>
Net cash generated from (used in) investing activities	<u>233</u>	<u>(471)</u>	<u>(35)</u>
Cash flows from financing activities			
Advance from a shareholder	5,500	—	—
Advance from a director	4,538	—	1,527
Proceeds from issuance of share capital	—	12	100
Repayment of advance from a shareholder	—	(5,500)	—
Repayment of advance from a director	—	(4,261)	—
	<u> </u>	<u> </u>	<u> </u>
Net cash generated from (used in) financing activities	<u>10,038</u>	<u>(9,749)</u>	<u>1,627</u>
Net increase (decrease) in cash and cash equivalents	<u>4,740</u>	<u>(4,699)</u>	<u>305</u>
Cash and cash equivalents at beginning of period	<u>—</u>	<u>4,740</u>	<u>41</u>
Cash and cash equivalents at end of period	<u><u>4,740</u></u>	<u><u>41</u></u>	<u><u>346</u></u>

NOTES TO FINANCIAL INFORMATION**1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

The combined income statements and combined cash flow statements are prepared as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation, where this is a shorter period, and on the basis that the Relevant Business Operations carried on by Capital Automation for the period from 1st April, 2000 to 23rd June, 2001 are deemed to have been carried on by Art Global. The losses incurred in the Relevant Business Operations during the period from 1st April, 2000 to 23rd June, 2001 were absorbed by Capital Automation in accordance with the agreement governing the transfer. The combined balance sheets as at 31st March, 2002 and 30th June, 2002 present the assets and liabilities of the companies now comprising the Group as at that date as if the current group structure had been in existence at that date.

All significant intra-group transactions, cash flow and balances have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The financial information has been prepared under the historical cost convention and the principal accounting policies set out below which conform with accounting principles generally accepted in Hong Kong.

Revenue recognition

On-line advertising projects are classified as long-term projects or short-term projects. Revenue is recognised using the percentage of completion method for long-term projects whereas revenue is recognised for short-term project when the project is completed.

Revenue from content management solutions is recognised when the management services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and identified impairment loss.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method, at a rate of 20% per annum.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's software development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year/period.

Leases

Rentals under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

Taxation

The charge for taxation is based on the results for the year/period as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

Staff retirement benefits

The costs of staff retirement benefits are charged to the income statement as incurred.

3. TURNOVER AND SEGMENT INFORMATION

	Year ended 31st March,		Three months ended
	2001	2002	30th June, 2002
	HK\$'000	HK\$'000	HK\$'000
The turnover comprises:			
On-line advertising solution income	—	1,020	90
Mobile advertising solution income	3	12	—
Content management solution income	—	2,749	732
	<u>3</u>	<u>3,781</u>	<u>822</u>

Turnover and contribution to loss from operations by segment has not been presented as all the Group's turnover was derived from the provision of services in Hong Kong and all assets were located in Hong Kong during the Relevant Periods.

4. (LOSS) PROFIT FROM OPERATIONS

	Year ended 31st March,		Three months ended
	2001	2002	30th June, 2002
	HK\$'000	HK\$'000	HK\$'000
(Loss) profit from operations has been arrived at after charging:			
Retirement benefits scheme contributions, including amounts included in directors' remuneration and net of forfeited contribution	7	34	13
Other staff costs	<u>754</u>	<u>1,791</u>	<u>378</u>
Total staff costs	761	1,825	391
Allowances for doubtful debts	—	214	—
Auditors' remuneration	30	80	50
Depreciation	1	49	27
Minimum lease payment under operating lease rentals in respect of rented premises	—	66	52
Preliminary expenses written off	<u>10</u>	<u>7</u>	<u>33</u>

5. FINANCE COSTS

The finance costs represent interests on bank borrowings wholly repayable within five years.

6. TAXATION

	Year ended 31st March,		Three months
	2001	2002	ended
	HK\$'000	HK\$'000	30th June, 2002
			HK\$'000
The charge comprises:			
Hong Kong Profits Tax	—	139	11
Deferred taxation (<i>note 16</i>)	—	54	2
	<u>—</u>	<u>193</u>	<u>13</u>
	<u>—</u>	<u>193</u>	<u>13</u>

No provision for Hong Kong Profits Tax has been made for the year ended 31st March, 2001 as the companies comprising the Group incurred losses during that year.

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for the year ended 31st March, 2002 and the three months ended 30th June, 2002.

7. EMOLUMENTS OF DIRECTORS AND EMPLOYEES

Directors

	Year ended 31st March,		Three months
	2001	2002	ended
	HK\$'000	HK\$'000	30th June, 2002
			HK\$'000
Fees	—	—	—
Salaries and other benefits	244	607	84
Retirement benefits scheme contributions	6	16	3
	<u>250</u>	<u>623</u>	<u>87</u>
	<u>250</u>	<u>623</u>	<u>87</u>

There were two directors of the Company who received emoluments of approximately HK\$175,000 and HK\$75,000 respectively for the year ended 31st March, 2001, HK\$312,000 and HK\$311,000 respectively for the year ended 31st March, 2002, and HK\$30,000 and HK\$57,000 respectively for the three months ended 30th June, 2002. The remaining five directors of the Company did not receive any emoluments during the Relevant Periods.

Each of the directors of the Company has entered into a service contract or a letter of appointment with the Company subsequent to 30th June, 2002. The aggregate annual emoluments payable to the directors of the Company will amount to approximately HK\$3,498,000 per annum. Had the emoluments paid to Directors for the Relevant Periods been based on the above-mentioned service contracts or letters of appointment and the charge to the combined results of the Group after taxation would have been as follows:

	Year ended 31st March,		Three months ended
	2001	2002	30th June,
	HK\$'000	HK\$'000	2002
Net (loss) profit for the year/period	(6,240)	717	18
Add: Directors' remuneration paid for the year/period after tax effect (<i>Note</i>)	210	523	73
Less: Notional directors' remuneration after tax effect (<i>Note</i>)	<u>(2,938)</u>	<u>(2,938)</u>	<u>(735)</u>
Adjusted net loss for the year/period	<u><u>(8,968)</u></u>	<u><u>(1,698)</u></u>	<u><u>(644)</u></u>

Note: The tax effect is calculated at Hong Kong profits tax rate of 16%.

Employees

Details of the emoluments paid by the Group to the five highest paid individuals include two directors of the Company for each of the two years ended 31st March, 2002 and one director of the Company for the three months ended 30th June, 2002. Information relating to their emoluments has been disclosed above. The emoluments of the other three individuals for each of the two years ended 31st March, 2002 and the emoluments of the other four individuals for the three months ended 30th June, 2002 are as follows:

	Year ended 31st March,		Three months ended
	2001	2002	30th June,
	HK\$'000	HK\$'000	2002
Salaries and other benefits	390	529	166
Retirement benefits scheme contributions	<u>—</u>	<u>—</u>	<u>2</u>
	<u><u>390</u></u>	<u><u>529</u></u>	<u><u>168</u></u>

During the Relevant Periods, no emoluments were paid by the Group to the directors of the Company and the five highest paid individuals of the Group as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Periods.

8. RETIREMENT BENEFITS

The Group has participated in a pension scheme since December 2000, which was registered under the Mandatory Provident Fund Schemes Ordinance (the “MPF Ordinance”), for all its employees in Hong Kong. The scheme is a defined contribution scheme effective from December 2000 and is funded by contributions from employer and employees according to the provisions of the MPF Ordinance.

9. DIVIDEND

No dividends have been paid or declared by the Company since the date of its incorporation. In addition, no dividends have been paid or declared by any of the companies comprising the Group during the Relevant Periods.

10. (LOSS) EARNINGS PER SHARE

The calculation of the (loss) earning per share for the Relevant Periods is based on the combined results for each of the Relevant Periods and on 400,000,000 shares in issue and issuable comprising 200,000 shares in issue as at the date of the Prospectus and 399,800,000 shares to be issued pursuant to the Capitalisation Issue as more fully described in the paragraph headed “Written resolutions of the sole member passed on 26th October, 2002” in Appendix IV to the Prospectus.

The calculation of diluted loss per share for the year ended 31st March, 2001 does not assume the exercise of the share options as their exercise would result in a decrease in loss per share.

The diluted earnings per share for the year ended 31st March, 2002 and the three months ended 30th June, 2002 are based on the Group’s net profit for the year/period of HK\$717,000 and HK\$18,000 respectively and on the weighted average of 429,793,102 shares issued and issuable (after adjusting for the deemed issue of 29,793,102 shares, calculated with reference to the number of shares issuable under the Pre-IPO Share Option Scheme (note 24(c))).

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Computer equipment <i>HK\$'000</i>	Total <i>HK\$'000</i>
COST					
At 1st April, 2000	—	—	—	—	—
Additions	—	—	—	23	23
At 31st March, 2001	—	—	—	23	23
Additions	76	56	82	285	499
Disposals	—	—	—	(23)	(23)
At 31st March, 2002	76	56	82	285	499
Additions	3	—	33	—	36
At 30th June, 2002	79	56	115	285	535
DEPRECIATION					
At 1st April, 2000	—	—	—	—	—
Provided for the year	—	—	—	1	1
At 31st March, 2001	—	—	—	1	1
Provided for the year	8	7	7	27	49
Eliminated on disposals	—	—	—	(5)	(5)
At 31st March, 2002	8	7	7	23	45
Provided for the period	4	3	6	14	27
At 30th June, 2002	12	10	13	37	72
NET BOOK VALUE					
At 31st March, 2001	—	—	—	22	22
At 31st March, 2002	68	49	75	262	454
At 30th June, 2002	67	46	102	248	463

12. OTHER INVESTMENT

The amount represents the Group's 99.9% equity investment in 32days.com Asia Limited ("32days.com Asia). Although the Group held 99.9% in 32days.com Asia, it had not been consolidated because the investment was acquired in December 2001 exclusively with a view to its disposal in the near future. The investment is therefore accounted for as an other investment under Statement of Standard Accounting Practice No. 24 "Investments in securities" issued by the Hong Kong Society of Accountants.

32days.com Asia was incorporated in Hong Kong on 20th October, 2000 with an ordinary share capital of HK\$10,000. Its principal activity is the operation of 32days.com portal.

The investment was disposed of by the Group in April, 2002.

13. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 30 days to its trade customers.

The following is an aged analysis of trade receivables:

	As at 31st March,		As at
	2001	2002	30th June,
	HK\$'000	HK\$'000	2002
Within 30 days	3	942	65
Over 30 days	—	46	1
Over 60 days	—	5	1
Over 90 days	—	60	931
	<u>3</u>	<u>942</u>	<u>931</u>
Trade receivables	3	1,053	998
Prepayments, deposits and other receivables	—	17	1,763
	<u>3</u>	<u>1,070</u>	<u>2,761</u>

14. AMOUNT DUE FROM A RELATED COMPANY

The amount represents the balance with 32days.com Asia. The amount was unsecured, interest free and with a credit term of 30 days. The maximum amount outstanding during the year ended 31st March, 2002 and the three months ended 30th June, 2002 were HK\$400,000 and HK\$100,000, respectively, and the full amount was subsequently settled in April 2002. Details of the Group's relationship with 32days.com Asia are set out in note 25.

15. AMOUNT DUE TO A DIRECTOR

The amount due to Mr. Chan was unsecured, interest free and was fully settled at the end of September, 2002.

16. DEFERRED TAXATION

	Year ended 31st March,		Three months
	2001	2002	ended
	HK\$'000	HK\$'000	30th June,
Balance brought forward	—	—	54
Charge for the year/period (<i>note 6</i>)	—	54	2
	<u>—</u>	<u>54</u>	<u>56</u>
Balance carried forward	—	54	56

At the balance sheet date, the major components of the deferred taxation liabilities recognised are as follows:

	As at 31st March,		As at
	2001	2002	30th June,
	HK\$'000	HK\$'000	2002
			HK\$'000

Tax effect of timing differences because of:

Excess of tax allowance over depreciation	—	54	56
	<u> </u>	<u> </u>	<u> </u>

There were no significant unrecognised deferred taxation for the Relevant Periods.

17. AMOUNT DUE TO A SHAREHOLDER

The amount was unsecured, interest free and had no fixed repayment terms.

18. SHARE CAPITAL

The balance at 31st March, 2002 represents the share capital of Yorkmax which was the holding company of other members of the Group prior to the Corporate Reorganisation.

The balance at 30th June, 2002 represents the aggregate share capital of the Company and Yorkmax prior to the Corporate Reorganisation.

19. ACCUMULATED (LOSS) PROFIT

	Accumulated (loss) profit HK\$'000
At 1st April, 2000	—
Net loss for the year	<u>(6,240)</u>
At 31st March, 2001	(6,240)
Net profit for the year	717
Absorbed by Capital Automation	<u>6,533</u>
At 31st March, 2002	1,010
Net profit for the period	<u>18</u>
As at 30th June, 2002	<u>1,028</u>

The Company had no reserve available for distribution as of 30th June, 2002.

The amount absorbed by Capital Automation represents the loss of Capital Automation for the period from 1st April, 2000 to 23rd June, 2001.

20. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	As at 31st March,		As at
	2001	2002	30th June,
	HK\$'000	HK\$'000	2002
Within one year	—	—	207
In the second to fifth year inclusive	—	—	164
	<u>—</u>	<u>—</u>	<u>371</u>

Leases are negotiated and rentals are fixed for an average of two years.

21. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at the respective balance sheet dates.

22. RELATED PARTY TRANSACTIONS

During the Relevant Periods, the Group had the following significant transactions with related parties:

Related party	Nature of transactions	Year ended 31st March,		Three months ended
		2001	2002	30th June,
		HK\$'000	HK\$'000	2002
CAI Concepts, Inc. ("CAIC") (note i)	Research and development expenditures paid (note ii)	4,856	—	—
32days.com Asia	Content management solution income received (note iii)	—	1,090	300
Mr. Chan and Ms. Han Seung A (wife of Mr. Chan)	Disposal of other investment (note iv)	—	—	1

Notes:

- (i) Mr. Chan and Mr. N. H. Chan had indirect beneficial interest in CAIC prior to its dissolution.
- (ii) The amount was charged in accordance with the terms of the relevant contracts which were mutually agreed by the relevant parties.
- (iii) The amount was charged in accordance with the Group's normal pricing policy.
- (iv) The consideration was calculated on the basis of the nominal value of the shares or the net asset value represented by the shares, whichever was higher.

In addition, Mr. Chan provided a rent-free office to the Group. The ratable value of the rent free office was approximately HK\$219,000 for each of the two years ended 31st March, 2002. The transaction was terminated in April 2002.

In the opinion of the directors, the above transactions were entered in the normal course of the Group's business. All of the above transactions had been terminated.

23. DIRECTORS' REMUNERATION

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

Under the arrangement currently in force, the aggregate remuneration of the directors of the Company for the year ending 31st March, 2003 is expected to be approximately HK\$1,458,000.

24. SUBSEQUENT EVENTS

The following transactions took place subsequent to 30th June, 2002:

- (a) In preparation for the listing of the Company's shares on the Stock Exchange, the companies now comprising the Group underwent a reorganisation to rationalise the group structure. As a result of the reorganisation, the Company became the holding company of the Group on 23rd October, 2002. The details of this reorganisation and other changes are set out in the paragraph headed "Reorganisation" in Appendix IV to the Prospectus.
- (b) On 26th October, 2002, resolutions of the shareholders were passed to approve the matters set out in the paragraph headed "Written resolutions of the sole member passed on 26th October, 2002" in Appendix IV to the Prospectus.
- (c) The Company granted options to directors and employees of the Group to subscribe a total of approximately 37.2 million shares in the Company at an exercise price of HK\$0.05 per share. Details of these options are set out in the section headed "Options granted under Pre-IPO Share Option Scheme" of the Prospectus.

25. NON-CONSOLIDATED INVESTMENT

During the period from 22nd December, 2001 to 25th April, 2002 Yorkmax held 99.9% of the issued share capital of 32days.com Asia. This report has not consolidated the results of 32days.com Asia for the Relevant Periods as in the opinion of the directors, the operations of 32days.com Asia are not an integral part of the Group's core business and the Group's investment therein was temporary in nature. 32days.com Asia was acquired by Yorkmax from Capital Automation and Mr. Chan on 22nd December, 2001 for an aggregate consideration of HK\$999 which was calculated on the basis of the nominal value of the shares or the net asset value represented by the shares, whichever was higher. On 25th April, 2002, Yorkmax disposed of its entire interest in 32days.com Asia to Mr. Chan and Ms. Han Seung A for an aggregate consideration of HK\$999 which was calculated on the basis of the nominal value of the shares or the net asset value represented by the shares, whichever was higher. Had the results of 32days.com Asia during the period of Yorkmax's holding been consolidated, the combined results of the Group for the Relevant Periods would have been as follows:

	Year ended 31st March,		Three months ended
	2001	2002	30th June, 2002
	HK\$'000	HK\$'000	HK\$'000
Turnover	3	3,381	722
Other operating income	1	—	—
Interest income	256	11	—
Research and development expenditures	(5,991)	(867)	(184)
Selling expenses	(146)	(176)	(48)
Administrative expenses	(360)	(1,838)	(560)
(Loss) profit from operations	(6,237)	511	(70)
Finance costs	(3)	(1)	—
Gain on disposal of 32days.com Asia	—	—	501
(Loss) profit before taxation	(6,240)	510	431
Taxation	—	(193)	(13)
Net (loss) profit for the year/period	(6,240)	317	418

Further details regarding the reasons for Yorkmax's acquisition and disposal of 32days.com Asia are set out in the section headed "History and development" of the Prospectus.

B. NET TANGIBLE ASSETS OF THE COMPANY

At 30th June, 2002, the Company had a prepayment of approximately HK\$10,000, a cash balance of approximately HK\$57,000, issued share capital of HK\$100,000 and an accumulated loss carried forward of approximately HK\$33,000.

The Company was incorporated on 28th May, 2002 and did not carry on any business until 23rd October, 2002 when pursuant to the Corporate Reorganisation, it acquired the entire share capital of Yorkmax and became the holding company of the Group. Had the Corporate Reorganisation been completed on 30th June, 2002 and on the basis set out in note 1 to Section A above, the net tangible assets of the Company at 30th June, 2002 would have been approximately HK\$1,140,000 representing the Company's interest in subsidiaries.

C. ULTIMATE HOLDING COMPANY

The Company's ultimate holding company is Joy Ventures International Limited. Joy Ventures International Limited is wholly owned by The CNH Trust. Details of the trust arrangements are set out in the section headed "Substantial shareholders, Initial Management Shareholders and significant shareholder" of the Prospectus.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group, the Company or any of the companies comprising the Group in respect of any period subsequent to 30th June, 2002.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

B.I. Appraisals

Registered Professional Surveyors, Valuers & Property Consultants
(Formerly Brooke International Appraisals Limited)

Suites 5708-09, The Center, 99 Queen's Road Central, Hong Kong
Tel: (852) 2137 9880 Fax: (852) 2137 9877
Email: info@biappraisals.com.hk Website: www.bisurveyors.com.hk

保柏國際評估有限公司

22nd November, 2002

The Directors
AGL MediaTech Holdings Limited
10th Floor
99 Hennessy Road
Wan Chai
Hong Kong

Dear Sirs,

In accordance with the instruction from AGL MediaTech Holdings Limited (hereinafter referred to as the “Company”) for us to value the property interests in the two properties (hereinafter referred to as the “Properties”) rented by the Company and/or its subsidiaries (hereinafter together referred to as the “Group”) in Hong Kong, we confirm that we have inspected the Properties, conducted land searches at the Urban Land Registry, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the open market values of such property interests as at 5th November, 2002 (hereinafter referred to as the “date of valuation”).

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

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;
- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Our valuations have been made on the assumption that the property interests are sold in the open market without the benefit of a deferred terms contract, leaseback, joint venture, or any similar arrangement which would serve to affect the values of the property interests.

No account has been taken of any option or right of pre-emption concerning or affecting the sale of the property interests and no forced sale situation in any manner is assumed in our valuations.

The property interests in the Properties which are rented by the Group in Hong Kong are considered to have no commercial value due mainly to the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

We have not been provided with copies of title documents relating to the property interests in the Properties but we have caused searches to be made at the Urban Land Registry. We have not been able to scrutinize the original documents to verify the ownership nor to ascertain the existence of any amendments which may not appear on the copies available to us.

We have inspected the exterior and, where possible, the interior of the Properties. However, no structural survey has been made nor have any tests been carried out on any of the services provided in the Properties. We are, therefore, not able to report as to whether the Properties are free from rot, infestation or other structural defects. Yet, during the course of our inspection, we did not note any serious defects.

We have not carried out on-site measurements to verify the correctness of the floor areas in respect of the Properties but have assumed that the areas shown on the documents and official floor plans handed to us are correct. Dimensions, measurements and areas included in the attached valuation certificates are based on information contained in the documents provided to us by the Company and are therefore only approximations.

We have relied to a considerable extent on the information provided by the Company and have accepted advice on such matters as planning approvals, statutory notices, easements, tenures, particulars of occupancy, tenancy agreements, floor areas and all other relevant matters in the identification of the Properties.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Company. We were also advised by the Company that no material facts have been omitted from the information provided. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

No allowance has been made in our valuations for any charges, mortgages or amount owing on the Properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our valuations have been prepared in accordance with the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors in March 2000 and under the generally accepted valuation procedures and practices.

Unless otherwise stated, all monetary amounts stated in our valuation certificates are in Hong Kong Dollars.

We hereby certify that we have neither present nor prospective interests in the Group or the values reported herein.

We attach herewith a summary of values and our valuation certificates.

Yours faithfully,
For and on behalf of
B.I. APPRAISALS LIMITED
Pamela W. I. Lam
MRICS, AHKIS, RPS (G.P.)
Director

Note: Ms. Pamela W. I. Lam is a Chartered Surveyor who has 6 years' experience in valuing properties in Hong Kong.

SUMMARY OF VALUES

No.	Property	Open market value in existing state as at 5th November, 2002
1.	10th Floor, No. 99 Hennessy Road, Wan Chai, Hong Kong	No commercial value
2.	Unit 2801 on 28th Floor, No. 99 Hennessy Road, Wan Chai, Hong Kong	No commercial value
Total:		<hr/> <u>No commercial value</u>

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Open market value in existing state as at 5th November, 2002
1. 10th Floor, No. 99 Hennessy Road, Wan Chai, Hong Kong	<p>The property comprises the 10th Floor of a 24-storey commercial building completed in about 2002.</p> <p>The gross floor area of the property is approximately 145.67 square metres (1,568 square feet).</p> <p>The property is held under three Government Leases for the same term of 99 years commencing from 25th May, 1929, renewable for a further term of 99 years.</p>	<p>The property is currently occupied by the Group as an office under a tenancy for a term of two years commencing from 15th April, 2002 to 14th April, 2004 at a rent of \$17,248.00 per calendar month exclusive of rates and management fee.</p>	No commercial value
2. Unit 2801 on 28th Floor, No. 99 Hennessy Road, Wan Chai, Hong Kong	<p>The property comprises one of the two office units on the 28th Floor of a 24-storey commercial building completed in about 2002.</p> <p>The gross floor area of the property is approximately 63.36 square metres (682 square feet).</p> <p>The property is held under three Government Leases for the same term of 99 years commencing from 25th May, 1929, renewable for a further term of 99 years.</p>	<p>The property is currently occupied by the Group as an office under a tenancy for a term of twenty months commencing from 1st November, 2002 to 30th June, 2004 at a rent of \$8,184.00 per calendar month exclusive of rates and management fee.</p>	No commercial value

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

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 company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 28th May, 2002 under the Companies Law (2002 Revision) of the Cayman Islands (the “Companies Law”). The Company’s constitutional documents consist of its Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”).

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (which includes acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate, irrespective of any question of corporate benefit, as set forth in Section 27(2) of the Companies Law whether as principal, agent, contractor or otherwise whatever may be and since the Company is an exempted company that 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.
- (b) By special resolution the Company may alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 26th October, 2002. The following is a summary of certain provisions of the Articles:

(a) **Directors**

- (i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law, the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may 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 Board may determine). Subject to the Companies Law, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and the Memorandum and Articles, any share may, with the sanction of a special resolution, be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

APPENDIX III SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

The Board of Directors of the Company (the “Board”) may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such considerations and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be illegal or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

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

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board 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 the Companies Law to be exercised or done by the Company in general meeting, but if such power or act should be and is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

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

In accordance with the Articles, payments to any present 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 provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Companies Ordinance.

(v) *Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director

for such period and, subject to the Articles, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or 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, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Unless otherwise provided by the Articles, the Board 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 it thinks 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.

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 shall any such contract 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 of proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contact or arrangement is first taken into consideration, if he knows his interest then exists, or in any other circumstance, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not be entitled to vote (nor shall he be counted in the quorum in relation thereto) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following proposed contracts or arrangements, namely:

- (aa) the giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

- (cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in 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;
 - (dd) any proposal concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a member other than a company in which the Director together with any of his associates (as defined by the rules, where applicable, of any stock exchange of the Relevant Territory (as defined in the Articles)) is beneficially interested in five percent or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived);
 - (ee) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates; or
 - (ff) any proposal in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.
- (vi) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be repaid or repaid all traveling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such

extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At any time or from time to time, the Directors shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board subject to any maximum number of Directors, if any, as may be fixed by the Articles. 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 each annual general meeting, one third of the Directors (other than the managing Director or joint managing Directors or chairman) for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not greater than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

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Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

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 any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board whereupon the Board resolved to accept such resignation;
- (bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolved that his office be vacated;
- (cc) if, without special leave, he is absent from meetings of the Board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the Board resolved that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceased to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;
- (gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; and
- (hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and from time to time it may also 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, authorities and discretions so delegated, comply with any regulations that may from time to time be imposed upon it by the Board.

(viii) *Borrowing powers*

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and 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.

(ix) *Register of Directors and Officers*

Pursuant to the Companies Law and the Articles, the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

(x) *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the dispatch of business and may adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(b) Alterations to the Constitutional Documents

The Memorandum and Articles of the Company may only be rescinded, altered or amended, and the name of the Company may only be changed by the Company in general meeting by special resolution.

(c) Variation of rights of existing shares of classes of shares

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified 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 general 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, but so that the necessary quorum (other than at an adjourned meeting) shall be a person or persons together holding (or representing by proxy) not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(d) Alteration of capital

The Company may, by an ordinary resolution of its members, if so authorised by the Articles, alter the conditions of its Memorandum of Association to: (a) increase its share capital by new shares of such amount as it thinks expedient provided that an exempted company having no shares of a fixed amount may increase its share capital by such number of shares without nominal or par value, or may increase the aggregate consideration for which such shares may be issued, as it thinks expedient; (b) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares; (c) convert all or any of its paid-up shares into stock, and reconvert that stock into paid-up shares of any denomination; (d) subdivide its shares or any of them, into shares of an amount smaller than that fixed by the Memorandum so, however, that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived; and (e) cancel shares which, at the date of the passing of the resolution in that behalf, 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 or, in the case of shares without nominal or par value diminish the number of shares into which its capital is divided.

Reduction of share capital — subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way, cancel any shares which 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.

Share certificates — unless its articles of association otherwise provide, a Cayman company may determine whether or not to issue share certificate to its members. The Companies Law prohibits the issue of bearer shares to any person other than an authorised recognised custodian defined in the Companies Law. The requirement on all service providers to implement appropriate due diligence procedures on the identity of a client in order to “know your client” as result of proceeds of crime legislation mandates that special procedures should be followed when issuing bearer shares.

(e) Special resolution — majority required

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, 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, 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 and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days’ notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An “ordinary resolution”, by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share registered in his name in the register of members of the Company at the date of such meeting but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member 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 use all of his votes or cast all the votes he does use in the same way.

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At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (aa) the chairman of the meeting; or
- (bb) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (cc) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy 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
- (dd) a member or members present in person or in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a recognized clearing house (as defined in the Articles) or its nominee(s), be a member of the Company, such a person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (as defined in the Articles) or its nominee(s), as if such person were the registered holder of the shares of the Company held by that clearing house or its nominee(s), including the rights to vote individually on a show of hands.

(g) **Annual general meetings**

The Company must hold an annual general meeting each year, other than in the year of incorporation. Such meeting must be held within not more than 15 months after the holding of the last preceding annual general meeting, unless a longer period would not infringe the rules of any stock exchange of the Relevant Territory (as defined in the Articles) at such time and place as may be determined by the Board.

(h) **Accounts and audit**

The Board shall cause true accounting records to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters as required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

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The accounts and books of the Company shall be kept at the registered office or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as may be permitted by the Companies Law or other law or authorised by the Board or the Company in general meeting.

Beginning with the first annual general meeting and at every subsequent annual general meeting of the Company, the Board shall cause to be laid before the Company balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a printed copy of the Board's report and a copy of the auditors' report not less than 21 days before the date of the meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles, not less than 21 days' before the date of the meeting.

Pursuant to the provisions of the articles, the Company shall appoint auditor(s) and the terms and tenure of such appointment and their duties at all times regulated. The auditors' remuneration shall be fixed by the Company in general meeting or in such other manner as may determined by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted auditing principles ("GAAP"). The auditor shall make a written report thereon in accordance with GAAP standards and such report shall be submitted to the members in general meeting. The generally GAAP standards referred to herein may be those of Hong Kong, the International Accounting Standards or of such other country or jurisdiction (including the Cayman Islands), as may be permitted by the stock exchange of the Relevant Territory (as defined in the Articles). In such event, the financial statements and the report of the auditor shall disclose this fact and name such country or jurisdiction.

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

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must (except in the circumstances set out above in sub-paragraph (f)) be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. Furthermore, notice of every general meeting shall be given to all members of the Company other than those who, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company.

Although a meeting of the Company may be is called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

- (aa) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

- (bb) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the issue shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (i) the declaration and sanctioning of dividends;
 - (ii) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
 - (iii) the election of directors in place of those retiring;
 - (iv) the appointment of auditors and other officers;
 - (v) the fixing of the remuneration of the directors and of the auditors;
 - (vi) the granting of any mandate or authority of the directors to offer, allot grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be set out in the rules of the stock exchange of the Relevant Territory (as defined in the Articles) and the number of any securities repurchased by the Company since the granting of such mandate; and
 - (vii) the granting of any mandate or authority to the Board to repurchase securities in the Company.
- (j) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form (or such other form prescribed by the stock exchange of the Relevant Territory (as defined in the Articles) as the Board may approve and which may be under hand or, if the transferor or transferee is a recognised clearing house (as defined in the Articles) or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so 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 of the Company in respect thereof. In addition, the Board may resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

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Insofar as permitted by any applicable law the Board may, in its absolute discretion, at any time and from time to time 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 Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The Board may, in its absolute discretion, and without assigning any reason, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any stock exchange of the Relevant Territory (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the Board 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 persons on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any stock exchange of the Relevant Territory (as defined in the Articles), at such times and for such periods as the Board may 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 as further described in sub-paragraph 2(p) of this Appendix.

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

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by any stock exchange of the Relevant Territory (as defined in the Articles).

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

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

(m) Dividends and other methods of distribution

Subject to the Companies Law and the Articles, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

The Articles provide that dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

- (aa) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, however, no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and
- (bb) all dividends shall be apportioned and paid rateably in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

- (i) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, 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
- (ii) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such addresses as the holder or joint holder may in writing so direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one or two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

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

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers 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 if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Calls on shares and forfeiture of shares

The Board 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 Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks 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 upon 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 Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' 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, such place being either the registered office of the Company, or some other place at which calls of the Company are usually made payable. 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 Board 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 Board shall in its 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.

(p) Inspection of the corporate records

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on a stock exchange in Hong Kong, any member may inspect the principal register or branch register of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 32 of the Laws of Hong Kong).

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit. The Companies Law does not require that the Company make any returns of members to the Registrar of Companies in the Cayman Islands. Accordingly, the names and addresses of the members are not a matter of public record in the Cayman Islands.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman which shall not be treated as part of the business of the meeting.

Except as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

See sub-paragraph (c) above for the quorum needed for a separate general meeting of the members of a separate class of shares of the Company.

(r) Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman law, as summarized in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (aa) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

- (bb) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed to that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which out to have been paid up, at the commencement of the winding up on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or authorised by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, 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 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 member as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) **Untraceable members**

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable or shares to which a person is entitled by virtue of transmission on death, bankruptcy or operation of law if:

- (i) all cheques or warrants, being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;
- (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and
- (iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the stock exchange of the Relevant Territory (as defined in the Articles), has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

Pursuant to the Articles provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 28th May, 2002 subject to the Companies Law of the Cayman Islands. Certain provisions of Cayman company law are set out below but does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company Operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Register of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

In accordance with the Companies Law, a Cayman company may issue ordinary, preference or redeemable shares or any combination thereof. 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”. At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in such manner as the company may from time to time determine, including, but without limitation, the following:

- (i) paying distributions or dividends to members;
- (ii) paying up unissued shares of the company to be issued to members of fully paid bonus shares;
- (iii) in the redemption and repurchase of shares (in accordance with the detailed provisions of section 37 of the Companies Law);

- (iv) writing-off the preliminary expenses of the company;
- (v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (vi) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

Notwithstanding the foregoing, the Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

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

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

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

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares without the manner of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer

be any member of the company holding shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's Memorandum and Articles, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2(n) of this Appendix for further details).

(f) Protection of minorities and shareholders' suits

It can be expected that the Cayman Islands courts will ordinarily follow English caselaw precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

- (i) an act which is *ultra vires* the company or illegal;
- (ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and
- (iii) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member 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 should be wound up.

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

(g) Disposal of assets

There are no specific restrictions in the Companies Law 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 interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

Section 59 of the Companies Law provides that a company shall 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 to 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.

Section 59 of the Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

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

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the company has obtained an undertaking from the Governor-in-Council:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the company or its operations:
and

(2) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the company:

(i) on or in respect of the shares, debentures or other obligations of the company;
or

(ii) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the company is for a period of twenty years from 11th June, 2002.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not a party to any double tax treaties.

(k) Stamp duty on transfers

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) Loans to directors

The Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

The members of the company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's Articles.

(n) Register of members

A Cayman Islands exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(o) **Winding up**

A Cayman Islands company may be wound up either by (i) an order of the court or (ii) voluntarily by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or where the event occurs on the occurrence of which the memorandum 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 appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no further executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, ratably if insufficient assets exist to discharge the liabilities in full, and settle the list of contributories ("members") and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

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 purpose of winding up the affairs of the company and distributing its assets.

When the affairs of a 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 general meeting shall be called by Public Notice or such other means as the Registrar of Companies may direct.

For the purpose of the conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an Official Liquidator or Official Liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(p) Reconstructions

Reconstructions and amalgamations are governed by specific statutory provisions under the Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(r) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Truman Bodden & Company, the company's special legal advisors on Cayman Islands law, have sent to the company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to under "Documents available for public inspection" in Appendix V to this prospectus. 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.

GENERAL INFORMATION ON THE COMPANY**1. Incorporation**

The Company was incorporated in the Cayman Islands as an exempted company under the Companies Law on 28th May, 2002 under the name AGL MediaTech Holdings Limited (藝立媒體科技控股有限公司). The Company has established a principal place of business in Hong Kong at 10th Floor, 99 Hennessy Road, Wan Chai, Hong Kong. On 24th June, 2002, the Company was registered in Hong Kong as an oversea company under Part XI of the Companies Ordinance. Mr. Chan and Mr. Cheung Ka Kin have been appointed as the agents of the Company for acceptance of service of process and notices. As the Company is incorporated in the Cayman Islands, it operates subject to the Cayman Islands law and its constitution comprises a memorandum of association and articles of association. A summary of certain relevant part of the Company's constitution and certain relevant aspects of the Cayman Islands company law is set out in Appendix III to this prospectus.

2. Changes in the share capital of the Company

As at the date of incorporation of the Company, its authorised share capital was HK\$100,000 divided into 10,000,000 Shares of HK\$0.01 each.

On 28th May, 2002, one subscriber share of HK\$0.01 of the Company was taken up nil-paid by Mr. David S. Walker and Mr. David S. Walker transferred such subscriber share to City Pacific Ventures Limited, being the Vendor. The Company then issued a further 99,999 Shares of HK\$0.01 each to City Pacific Ventures Limited, making an aggregate of 100,000 Shares of HK\$0.01 each that were entered as nil-paid in the name of City Pacific Ventures Limited in the Company's register of members as at 10th July, 2002.

As consideration for acquisition of the entire issued capital of Yorkmax Investments Ltd., pursuant to the Reorganisation Agreement described under "Summary of material contracts" in this appendix, on 23rd October, 2002, the Company allotted and issued credited as fully-paid 100,000 Shares to City Pacific Ventures Limited and to apply an amount of HK\$1,000 being the amount credited to the Company's share premium account arising from the issue of the Shares referred to above, towards paying up in full at par the 100,000 nil-paid Shares held by City Pacific Ventures Limited.

Pursuant to the resolutions in writing passed by the then sole member of the Company on 23rd October, 2002, it was resolved that the authorised share capital of the Company was increased from HK\$100,000 to HK\$20,000,000 by creation of additional 1,990,000,000 Shares which shall rank *pari passu* in all respects with the then existing issued and unissued Shares.

Immediately following completion of the Placing and the Capitalisation Issue, but taking no account of any Shares that may be allotted and issued upon the exercise of the Over-allotment Option and any option granted under the Pre-IPO Share Option Scheme and any option that may be granted under the 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 480,000,000 Shares will be allotted and issued as fully-paid or credited as fully-paid and 1,520,000,000 Shares will remain unissued. On the basis that the Over-allotment Option is exercised in full, 492,000,000 Shares will be allotted and issued

fully-paid or credited as fully-paid and 1,508,000,000 Shares will remain unissued. Other than pursuant to the exercise of the Over-allotment Option and the options granted under the Pre-IPO Share Option Scheme and the options that may be granted under the Share Option Scheme, the Directors have no present intention to issue any of the authorised but unissued share capital of the Company and, without the prior approval of the Shareholders, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein and under “Reorganisation” below, there has been no alteration in the share capital of the Company since its date of incorporation.

3. Written resolutions of the sole member passed on 26th October, 2002

On 26th October, 2002, pursuant to the written resolutions passed by the then sole member of the Company:

- (a) the Company adopted the new memorandum and articles of association, the terms of which are summarised in Appendix III to this prospectus, in substitution for and to the exclusion of its then existing memorandum and articles of association;
- (b) conditional on the GEM Listing Committee granting listing of and permission to deal in the Shares in issue and to be issued as mentioned herein in relation to the Placing and on the obligations of the Sponsor and the Placing Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance the terms of the Underwriting Agreement:
 - (i) the Placing was approved and the Directors were authorised to allot and issue the New Shares and to approve the transfer of the Sale Shares pursuant thereto;
 - (ii) conditional further on the GEM Listing Committee granting approval of the Share Option Scheme and any options which may be granted thereunder and granting listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of any such option under the Share Option Scheme, the rules of the Share Option Scheme, the principal terms of which are set out under “Share Option Schemes” in this appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant to the exercise of the subscription rights under any option that may be granted under the Share Option Scheme;
 - (iii) conditional further on the GEM Listing Committee granting listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of any such option granted under the Pre-IPO Share Option Scheme, the rules of the Pre-IPO Share Option Scheme, the principal terms of which are set out under “Share Option Schemes” in this appendix, were approved and adopted and the Directors were

authorised to grant options to subscribe for Shares thereunder and to allot and issue Shares pursuant to the exercise of the subscription rights under any option granted under the Pre-IPO Share Option Scheme;

- (iv) the Over-allotment Option was approved and the Directors were authorised to allot and issue Shares which may be required to be issued if the Over-allotment Option is exercised;
- (v) a general unconditional mandate was given to the Directors to allot, issue and deal with Shares with an aggregate nominal value not exceeding the sum of:
 - (a) 20% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein; and
 - (b) the aggregate nominal value of the share capital of the Company represented by Shares or securities issued and repurchased by the Company pursuant to the authority granted to the Directors as referred to in sub-paragraph (vi) below;

Such mandate does not cover Shares to be allotted, issued or dealt with under the Placing and the Capitalisation Issue or a rights issue or similar arrangements in accordance with the articles of association of the Company or on the exercise of the Over-allotment Option or options granted under the Pre-IPO Share Option Scheme or that may be granted under the Share Option Scheme. Such mandate remains in effect until:

- the conclusion of the next annual general meeting of the Company; or
- the end of the period within which the next annual general meeting of the Company is required to be held under the articles of association of the Company or any applicable Cayman Islands law; or
- the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors,

whichever first occurs.

- (vi) a general unconditional mandate was given to the Directors to exercise all powers of the Company to repurchase Shares on GEM or any other stock exchange which the Shares may be listed and which is recognised by the SFC and the Stock Exchange in accordance with all applicable laws and the requirements of the GEM Listing Rules or all applicable laws and regulations of any other stock exchange as amended from time to time, with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued as mentioned herein. Such mandate remains in effect until:
 - the conclusion of the next annual general meeting of the Company;

- the end of the period within which the next annual general meeting of the Company is required to be held under the articles of association of the Company or any applicable Cayman Islands law; or
- the passing of an ordinary resolution by the Shareholders revoking or varying the authority given to the Directors,

whichever first occurs.

- (vii) conditional on the share premium account of the Company being credited as a result of the New Issue, an amount of HK\$3,998,000 in the share premium account of the Company be capitalised and applied in paying up in full at par 399,800,000 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 31st October, 2002 in proportion (as nearly as possible without involving fractions) to their then existing shareholdings in the Company.

4. Reorganisation

The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on GEM pursuant to which Company became the ultimate holding company within the Group.

- (a) On 15th July, 2002, a director's resolutions of Yorkmax Investments Ltd. was passed to convert all the existing bearer shares into registered shares according to the original shareholding structure i.e. 900 shares and 600 shares owned by Mr. Chan and Mr. N. H. Chan, respectively.
- (b) For the purpose of becoming the shareholder of the Company, City Pacific Ventures Limited was incorporated in the BVI on 18th April, 2002 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each and an issued share capital of US\$100 divided into 100 shares of US\$1.00 each, of which 60 shares and 40 shares were allotted to Mr. Chan and Mr. N. H. Chan, respectively for cash at par.
- (c) By the Reorganisation Agreement referred to under "Summary of material contracts" in this appendix, on 23rd October, 2002, the Company acquired from Mr. Chan and Mr. N. H. Chan an aggregate of 1,500 shares of US\$1.00 each, being the entire issued share capital in Yorkmax Investments Ltd., the intermediate holding company of the Group, and in consideration and in exchange for which, the Company (i) allotted and issued, credited as fully-paid at par, 100,000 new Shares to City Pacific Ventures Limited; and (ii) credited as fully-paid at par, the 100,000 nil-paid Shares held by City Pacific Ventures Limited. According to a nomination arrangement, on 23rd October, 2002, City Pacific Ventures Limited allotted and issued 60 and 40 shares of US\$1.00 each, credited as fully-paid, to Mr. Chan and Mr. N.H. Chan, respectively.

- (d) On 23rd October, 2002, Mr. Chan and Mr. N. H. Chan transferred an aggregate of 200 shares in the share capital of City Pacific Ventures Limited, being the entire issued share capital of City Pacific Ventures Limited, to Joy Ventures, the trustee of The WCY Unit Trust, following which Joy Ventures became the sole legal owner of all the issued shares of City Pacific Ventures Limited.

5. Changes in the share capital of the Company's subsidiaries

The subsidiaries of the Company as at the date of this prospectus are listed in the accountants' report, the text of which is set out in Appendix I to this prospectus.

The following alterations in the share capital of the Company's subsidiaries have taken place within the two years immediately preceding the date of this prospectus:

Yorkmax Investments Ltd.

- (a) On 24th April, 2001, Yorkmax Investments Ltd. was incorporated with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each, of which 900 and 600 shares, as evidenced by two bearer share certificates, were allotted and issued to Mr. Chan and Mr. N. H. Chan, respectively.
- (b) By virtue of a director's resolutions dated 15th July, 2002, the 1,500 bearer shares were converted into registered shares and Mr. Chan and Mr. N. H. Chan became the registered holder of 900 shares and 600 shares in Yorkmax Investments Limited, respectively.

Art Global

- (a) On 8th June, 2001, Art Global was incorporated with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which one share was allotted and issued to each of Company Kit Registrations Limited and Company Kit Secretarial Services Limited as subscribers.
- (b) On 15th June, 2001, Art Global allotted and issued 9,998 shares of HK\$1.00 each to Yorkmax Investments Ltd. for cash at par.
- (c) On 26th June, 2001, Company Kit Registrations Limited transferred one share of HK\$1.00 each in Art Global to Yorkmax Investments Ltd. On the same day, Company Kit Secretarial Services Limited transferred one share of HK\$1.00 each in Art Global to Mr. Chan (as trustee for Yorkmax Investments Ltd.).

i-tvc.net Limited

- (a) On 28th January, 2002, i-tvc.net Limited was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which 1,000 shares were allotted and issued to each of Mr. Chan and Ms. Han Seung A as subscribers.

- (b) (i) On 25th April, 2002, Mr. Chan transferred 998 shares of HK\$1.00 each in i-tvc.net Limited to Art Global and 2 shares to Yorkmax Investments Ltd. (as trustee for Art Global).
- (ii) On 25th April, 2002, Ms. Han Seung A transferred 1,000 shares of HK\$1.00 each in i-tvc.net Limited to Art Global.

i-tvc.net (HK) Limited

On 8th May, 2002, i-tvc.net (HK) Limited was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each, of which 9,999 shares were allotted and issued to Art Global and one share was allotted and issued to Yorkmax Investments Ltd. (as trustee for Art Global) as subscribers.

6. Repurchase by the Company of its own securities

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

(a) The GEM Listing Rules

The GEM Listing Rules permit companies with a primary listing on GEM to repurchase their securities on GEM subject to certain restrictions, which are set out in Rules 13.03 to 13.14 of the GEM Listing Rules, the more important of which are summarised below:

- (i) Shareholders' approval

All proposed repurchases of shares by a company with its primary listing on GEM must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval in relation to specific transaction.

Notes: Pursuant to written resolutions passed by the sole member of the Company on 26th October, 2002, a general unconditional mandate was given to the Directors to exercise all the powers of and on behalf of the Company to repurchase Shares on GEM or on any other stock exchange which the Shares may be listed and which is recognised by the SFC and the Stock Exchange in accordance with all applicable laws and the requirements of the GEM Listing Rules or all applicable laws and regulations of any other stock exchange as amended from time to time with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued mentioned herein (the "Repurchase Mandate"). The Repurchase Mandate will remain in effect until the conclusion of the Company's next annual general meeting, the date by which the Company is required by its articles of association or the Companies Law or any other applicable law to hold its next annual general meeting or revoked or varied by an ordinary resolution of the Shareholders, whichever first occurs.

Exercise in full of the Repurchase Mandate, on the basis of 480,000,000 Shares in issue immediately after completion of the Placing and taking no account of any shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option and any option granted under the Pre-IPO Share Option Scheme and to be granted under the Share Option Scheme could result in up to 48,000,000 Shares being repurchased by the Company.

(ii) Source of funds

Any repurchase must be funded out of funds legally available for that 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. Under the Cayman Islands law, any purchase by a company may be paid out of profits of the company or out of a fresh issue of shares made for the purpose of the repurchase or, if authorised by the articles of association and subject to the Companies Law, out of capital and, in the case of any premium payable on the repurchase, out of the profits of the company or from sums standing the credit of the share premium account of the company or, if authorised by the articles of association and subject to the Companies Law, out of capital.

(iii) Trading restrictions

A company is authorised to repurchase on GEM or on any other stock exchange recognised by the SFC or the Stock Exchange a total number of its shares representing up to a maximum of 10% of the existing issued share capital at the date of the passing of the ordinary resolution approving the repurchase mandate. A company may not issue or announce an issue of new shares for a period of 30 days immediately following a repurchase of securities whether on GEM or otherwise (except pursuant to the exercise of share options or similar instruments outstanding prior to such repurchase) without the prior approval of the Stock Exchange. In addition, the purchase price of shares purchased on GEM should not be higher than the latest or current independent bid price or the last independent sale (contract) price quoted or reported on the system (as defined in the GEM Listing Rules) and the opening bid or any bid shall not be made in the last 30 minutes before the close of normal trading hours as stipulated in the GEM Listing Rules. A company is also prohibited from making securities repurchases on GEM if the repurchase would result in the number of listed securities in the hands of the public falling below the relevant minimum prescribed percentage as required by the Stock Exchange.

A company shall procure that any broker appointed by it to effect the purchase of its own shares to disclose to the Stock Exchange such information with respect to purchases made on behalf of the company as the Stock Exchange may request.

(iv) Status of repurchased securities

The listing of all repurchased securities (whether on GEM or otherwise) is automatically cancelled and the certificates of those securities must be cancelled and destroyed as soon as reasonably practicable. Under the Cayman Islands law, a company's

repurchased shares will be treated as cancelled and the amount of the company's issued shares capital shall be diminished by the aggregate nominal value of the repurchased shares accordingly although the authorised share capital of the company will not be reduced.

(v) Suspension of repurchases

Any repurchase of securities is prohibited after a piece of price sensitive information has developed or has been the subject of decision until the price sensitive information has been publicly announced. In particular, during the period of one month immediately preceding either the preliminary announcement of the company's annual results or the publication of the company's interim report or quarterly report, a company is prohibited from making any repurchase of securities on GEM unless the circumstances are exceptional. In addition, the Stock Exchange reserves the right to prohibit a company from making any repurchase of securities on GEM if a company has breached any of the GEM Listing Rules.

(vi) Reporting requirements

Repurchases of securities on GEM or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening trading session on the business day following the day in which the Company repurchases its securities. The Stock Exchange is to make this information publicly available as soon as possible. In addition, a company's annual report and accounts are required to include a monthly breakdown of securities repurchases made during the financial year under review, showing the number of securities repurchased each month (whether on GEM or otherwise), the purchase price per share or the highest and lowest price per share or the highest and lowest prices paid for all such repurchases and the total prices paid. The directors' report is also required to contain reference to the purchases made during the year and the directors' reasons for making such purchases.

(vii) 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 an associate of any of them (as defined in the GEM Listing Rules), and a connected person is prohibited from knowingly selling his securities to the company.

(b) *Reasons for repurchases*

Repurchase of Shares will only be made when the Directors believe that such repurchase will benefit the Company and the Shareholders. 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 its earnings per Share.

(c) Funding of repurchases

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum of association and articles of association and the GEM Listing Rules and the applicable laws and regulations 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. 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 level which in the opinion of the Directors are from time to time appropriate for the Group.

(d) General

None of the Directors nor, to the best of their knowledge and having made all reasonable enquiries, any of their respective associates currently intends to sell any Shares to the Company or its subsidiaries.

No connected person (as defined in the GEM Listing Rules) of the Company has notified the Company that he has a present intention to sell his Shares to the Company, or has undertaken not to do so, 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 memorandum of association and the articles of association of the Company and the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a shareholder or a group of shareholders acting in concert (as defined in the Takeovers Code) could obtain or consolidate control of the Company and become(s) 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 consequence which would arise under the Takeovers Code as a result of a repurchase of Shares pursuant to the exercise of the Repurchase Mandate.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

1. 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 immediately preceding the date of this prospectus and are or may be material:

- (a) Authorisation to Use Copyrighted Materials dated 1st August, 2001 pursuant to which Mr. Chan granted permission to Art Global to publish, reprint, or excerpt the characters contained in 32days.com for a period of three years from 1st August, 2001;
- (b) Assignment of Trade Name and Trademark Sale dated 1st August, 2001 pursuant to which Mr. Chan assigned to Art Global and its successors and assigns, all Mr. Chan's rights, title and interest in and to the trade name Design Team One, DTI, CAI Concepts, together with any logos, art work or design used by Mr. Chan in connection with the name, whether in the form of advertising, letterhead, business cards, signs or in any other form or context;
- (c) Assignment of Application dated 23rd April, 2002 pursuant to which Mr. Chan assigned his entire right, title and interest in the patent application (particulars of which are set out under "Intellectual property rights of the Group" in this appendix) to i-tvc.net Limited for a consideration of US\$10,000;
- (d) Reorganisation Agreement dated 23rd October, 2002 made between the shareholders of Yorkmax Investments Ltd., the Vendor and the Company regarding the acquisition of the entire issued share capital of Yorkmax Investments Ltd. by the Company;
- (e) Non-Competition Undertaking dated 23rd October, 2002 given by each of Mr. Chan and the Vendor in favour of the Company;
- (f) a sponsor's agreement dated 22nd November, 2002 entered into between the Company and the Sponsor pursuant to which the Company appointed the Sponsor as the continuing sponsor to the Company for the purpose of the GEM Listing Rules;
- (g) a deed of indemnity dated 22nd November, 2002 given by each of Mr. Chan and City Pacific Ventures Limited in favour of the Company (for itself and as trustee for its subsidiaries) containing the indemnities referred to under "Estate duty and other tax indemnity" in this appendix; and
- (h) the Underwriting Agreement.

2. Intellectual property rights of the Group


As at the Latest Practicable Date, the Group had applied for registration of the following patent in the United States:

Name of applicant	Title of invention	Application number	Filing date
i-tvc.net Limited	An interactive video player for distribution of interactive video instantaneously (i-tvc.net) and a backend proprietary advertising serving system (i-tvServe.net)	60/354,496	8th February, 2002

As at the date of this prospectus, the Group had registered the following domain names:

Name of registered owner	Domain name	Registration date
Art Global Limited	aglworld.com	15th July, 2001
Art Global Limited	aglcorporate.com	16th June, 2001
Art Global Limited	designteam1.com	16th September, 1999
Art Global Limited	caiconcepts.com	30th January, 2000
Art Global Limited	i-tvc.net	6th December, 2001
Art Global Limited	i-tvserve.net	23rd January, 2002
Art Global Limited	i-tvsurvey.net	29th April, 2002
Art Global Limited	email-blast.net	9th October, 2002

As at the Latest Practicable Date, the Group had applied for trademark registration of the following trademark in Hong Kong:

Trademark	Class number	Items covered	Application number	Application date
	42	web design; computer programming; consulting in the field of network and information systems; providing access to computer databases and networks	10424/2002	9th July, 2002

FURTHER INFORMATION ABOUT THE SUBSTANTIAL SHAREHOLDERS, THE DIRECTORS, MANAGEMENT, STAFF AND EXPERTS

1. Disclosure of interests

Save as disclosed in this prospectus, none of the Directors or their respective associates was engaged in any dealings with the Group during the two years preceding the date of this prospectus.

2. Disclosure of interests by the Directors in the share capital of the Company after the Placing and the Capitalisation Issue

Immediately following the Placing and the Capitalisation Issue and taking no account of any Shares which may be taken up under the Placing, the beneficial interests of the Directors in the equity or debt securities of the Company or any of 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 or which will be required once the Shares are listed, or pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange once the Shares are listed will be as follows:

Name of Director	Personal interests	Number of Shares			Total
		Family interests	Corporate interests	Other interests	
Mr. Chan	—	4,655,172 (Note 2)	360,000,000 (Note 1)	—	364,655,172
Ms. Han Seung A	—	360,000,000 (Note 2)	—	4,655,172 (Note 3)	364,655,172
Mr. Cheung Ka Kin	—	—	—	4,655,172 (Note 3)	4,655,172
Mr. Chung Yan Yee Andrew	—	—	—	7,758,621 (Note 3)	7,758,621
Ms. Wong Cheung Yun	—	—	—	4,655,172 (Note 3)	4,655,172

Notes:

- (1) These Shares are registered in the name of City Pacific Ventures Limited, of which Mr. Chan is the sole director. Accordingly, Mr. Chan is deemed to be interested in all the Shares in which City Pacific Ventures Limited is interested pursuant to the SDI Ordinance.
- (2) Ms. Han Seung A and Mr. Chan are spouses to each other and are deemed to be interested in all the interests in which the other is interested.
- (3) This represents the number of Shares which may fall to be allotted and issued upon the exercise of all the relevant options granted to the relevant Directors under the Pre-IPO Share Option Scheme.

Four of the Directors, namely, Mr. Chung Yan Yee, Andrew, Mr. Cheung Ka Kin, Ms. Wong Cheung Yun and Ms. Han Seung A, have been conditionally granted options in respect of an aggregate of 21,724,137 Shares under the Pre-IPO Share Option Scheme, particulars of which are described under “Share Option Schemes” in this appendix. The options conditionally granted under the Pre-IPO Share Option Scheme, including the options conditionally granted to the above Directors, are set out under “Outstanding options granted under the Pre-IPO Share Option Scheme” in this appendix.

3. Particulars of the Directors’ service contracts

Each of Mr. Chan, Mr. Chung Yan Yee, Andrew, and Mr. Cheung Ka Kin, being all the executive Directors, has entered into a service contract with the Company. Particulars of these agreements are set out below:

Each service contract is for an initial period of three years commencing on 26th October, 2002, and will continue thereafter unless and until, after the expiry of the first year of service, terminated by either party by serving not less than three months’ prior written notice or by payment of three months’ salary in lieu of such notice. Each of the executive Directors shall be entitled to an annual salary set out below (subject to an annual review at the discretion of the Board):

Mr. Chan	HK\$1,080,000
Mr. Chung Yan Yee, Andrew	HK\$840,000
Mr. Cheung Ka Kin	HK\$360,000

Moreover, each of the executive Directors shall, for the actual period of service rendered within each year of service, be entitled to a fixed bonus of up to HK\$120,000.

An executive Director shall abstain from voting and not be counted in the quorum in respect of any resolution of the Board approving the amount of remuneration payable to him.

Save as disclosed above, 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).

4. Directors’ remuneration

Remuneration and benefits in kind of approximately HK\$250,000, HK\$623,000 and HK\$87,000 were paid and granted by the Group to the Directors (in which all of these amounts were paid to Mr. Chan) in respect of each of the years ended 31st March, 2002 and the three months ended 30th June, 2002, respectively. Under the current arrangements, the Directors’ remuneration for the financial year ending 31st March, 2003 is expected to be approximately HK\$1,458,000.

The independent non-executive Directors were initially appointed for a fixed term of office of one year. Under the articles of association of the Company, one-third of the Directors for the time being (or if their number is not three or a multiple of three, than the result to, but not exceeding one-third of the Directors) will retire from office by rotation at each annual general meeting, subject to re-election.

Save for the annual Directors' fee of HK\$200,000, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

5. Substantial shareholders

So far as the Directors are aware, immediately following completion of the Placing and the Capitalisation Issue (assuming that the Over-allotment Option is not exercised and taking no account of Shares which may be taken up under the Placing and the Shares that may fall to be issued pursuant to the exercise of any option granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Share Option Scheme), the following persons will be directly or indirectly interested in 10% or more of the voting power at any general meeting of the Company for the purpose of the SDI Ordinance:

Name	Number of Shares or attributable number of Shares held immediately following completion of the Placing and the Capitalisation Issue	Approximate percentage of shareholding immediately following completion of the Placing and the Capitalisation Issue
City Pacific Ventures Limited (<i>Note 1</i>)	360,000,000	75%
Joy Ventures (<i>Note 1</i>)	360,000,000	75%
Mr. Chan (<i>Note 2</i>)	360,000,000	75%
Ms. Han Seung A (<i>Note 3</i>)	360,000,000	75%

Notes:

- (1) City Pacific Ventures Limited is wholly-owned by Joy Ventures as trustee of The WCY Unit Trust, all but one units of which are beneficially owned by The CNH Trust. The remaining one unit of The WCY Unit Trust is beneficially owned by Ms. Wong Cheung Yun (the mother of Mr. Chan). HSBC International Trustee Limited and Ms. Wong Cheung Yun are the trustee and the protector of The CNH Trust, respectively. The discretionary objects of The CNH Trust for a period of 12 months from the Listing Date are Mr. Chan (as to 60% of the trust assets) and Mr. N. H. Chan (as to 40% of the trust assets) and thereafter are the family members of Mr. Chan and Mr. N. H. Chan including, but not limited to, Ms. Han Seung A (the spouse of Mr. Chan), Ms. Wong Cheung Yun and Ms. Chan Shiu Shu (the daughter of Mr. Chan). Joy Ventures is wholly-owned by The CNH Trust. In accordance with the terms of the trust deed of The CNH Trust, Mr. Chan, as the settlor of The CNH Trust, has conferred the widest

possible discretionary powers onto HSBC International Trustee Limited as to the administration of the trust fund. Hence, HSBC International Trustee Limited has a complete and unfettered discretion as to whether or not to make any distribution, the amount of the distribution, which beneficiaries will receive the distribution, the investment of the trust fund and early termination of the trust period, subject to the restriction that no distribution of the trust fund shall be made under The CNH Trust for a period of 12 months commencing from the Listing Date. To this end, HSBC International Trustee Limited will not be influenced by Mr. Chan to cause any disposal of the Shares. In accordance with the terms of the trust deed, the protector, Ms. Wong Cheung Yun, has the power to remove HSBC International Trustee Limited as trustee of The CNH Trust and appoint a replacement. As such, Ms. Wong Cheung Yun will exercise this removal power if it is found that HSBC International Trustee Limited has any serious mismanagement or misconduct as to the trust fund.

- (2) Mr. Chan is the sole director of City Pacific Ventures Limited and is deemed to be interested in the Shares held by City Pacific Ventures Limited under the SDI Ordinance.
- (3) Ms. Han Seung A is spouse of Mr. Chan and is deemed to be interested in the Shares in which Mr. Chan is interested in under the SDI Ordinance.

6. Agency fees or commission

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commission, 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.

7. 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 note 22 of the accountants' report, the text of which is set out in Appendix I to this prospectus.

8. Cayman Islands resident assistant secretary

Caledonian Bank & Trust Limited

9. Disclaimers

Save as disclosed in this prospectus:

- (a) and taking no account of any Shares which may be taken up under the Placing and the Shares that may fall to be issued pursuant to the exercise of the Over-allotment Option, any option granted under the Pre-IPO Share Option Scheme and any option that may be granted under the Share Option Scheme, the Directors are not aware of any person who immediately following completion of the Placing and the Capitalisation Issue 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 herein;

- (b) 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 relating to notification of securities transaction by the directors to the Company and the Stock Exchange once the Shares are listed on GEM;
- (c) none of the Directors or the experts named under “Qualification of the experts” in this appendix was or is interested in the promotion of, or had 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;
- (d) no Director 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;
- (e) none of the experts named under “Qualifications of the experts” in 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; and
- (f) no cash, securities or other benefit was paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit proposed to be paid, allotted or given on the basis of the placing or related transaction as mentioned in this prospectus.

SHARE OPTION SCHEMES**1. Summary of the principal terms of the Pre-IPO Share Option Scheme**

The terms of the Pre-IPO Share Option Scheme are substantially the same as the terms of the Share Option Scheme except that:

- (a) the subscription price for Shares under the Pre-IPO Share Option Scheme shall be determined by the Board but in no event less than the nominal value of the Shares;
- (b) the total number of Shares subject to the Pre-IPO Share Option Scheme is 37,241,377 and there are no similar requirements on granting options to connected persons as summarised under “Summary of the principal terms of the Share Option Schemes” in this appendix;
- (c) the definition of “Employee” does not include employee of an Associated Company (as defined under “Summary of the principal terms of the Share Option Scheme” in this appendix);
- (d) the definition of “Qualified Person” does not include supplier, customer, agent or adviser of the Group; and
- (e) save for the options which have been granted (see below), no further options will be offered or granted, as the right to do so will end upon the listing of the Shares on GEM.

Each of the grantees to whom options have been granted under the Pre-IPO Share Option Scheme will be entitled to exercise the options at any time after the expiry of 12 months and not later than ten years from the date of grant.

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

2. Outstanding options granted under the Pre-IPO Share Option Scheme

As at the date of this prospectus, options to subscribe for an aggregate of 37,241,377 Shares, representing 7.2% of the total issued share capital of the Company immediately after completion of the Placing and Capitalisation Issue (assuming that the Over-allotment Option is not exercised and all the options granted under the Pre-IPO Share Option Scheme are exercised in full), were conditionally granted by the Company to nine grantees under the Pre-IPO Share Option Scheme. Details of the outstanding options granted to the grantees are as follows:

Name of grantee	Address	No. of Shares subject to the options granted under Pre-IPO Share Option Scheme	Exercise price per underlying Share	Approximate percentage of shareholding immediately following completion of the Placing and the Capitalisation Issue and assuming there is no exercise of the Over-allotment Option and all of the options granted under Pre-IPO Share Option Scheme are exercised
<i>Executive Directors</i>				
Mr. Chung Yan Yee, Andrew	4/F., Flat G, Block 2, Illumination Terrace, 7 Tai Hang Road, Hong Kong	7,758,621	HK\$0.05	1.5%
Mr. Cheung Ka Kin	49G, Block 3, Island Resort, Chai Wan, Hong Kong	4,655,172	HK\$0.05	0.9%
<i>Non-executive Directors</i>				
Ms. Wong Cheung Yun	12B, Block 3, Island Resort, Chai Wan, Hong Kong	4,655,172	HK\$0.05	0.9%
Ms. Han Seung A	26C, Tower 1, Starcrest, 9 Star Street, Wan Chai, Hong Kong	4,655,172	HK\$0.05	0.9%
	Sub-total:	<u>21,724,137</u>		<u>4.2%</u>

Name of grantee/ (position in the Group)	Address	No. of Shares subject to the options granted under Pre-IPO Share Option Scheme	Exercise price per underlying Share	Approximate percentage of shareholding immediately following completion of the Placing and the Capitalisation Issue and assuming there is no exercise of the Over-allotment Option and all of the options granted under Pre-IPO Share Option Scheme are exercised
Senior Management				
Mr. Jeon Sang Hoon (Chief Creative Officer (Rich Media))	Room A3-102 No. 851 Hong Jing Road Shanghai PRC	4,655,172	HK\$0.05	0.9%
Mr. Kang Tae Wook (Chief Creative Officer (Design))	Room D-203 Rome Garden No. 8 Rong Hua Dong Dao Changning District Shanghai PRC	3,103,448	HK\$0.05	0.6%
Mr. Wu Xin Jun (Chief Technology Officer)	Room 103 38/1115 Lane Hong Qiao Road Shanghai PRC	3,103,448	HK\$0.05	0.6%
Mr. Fu Siu Yau (Chief Director (Design))	A2807 Cheung Tak House Cheung Wah Estate Fanling New Territories Hong Kong	3,103,448	HK\$0.05	0.6%
Mr. Yun Yong Ho (Chief Director (Rich Media))	Room D-203 Rome Garden No. 8 Rong Hua Dong Dao Changning District Shanghai PRC	1,551,724	HK\$0.05	0.3%
	Sub-total:	<u>15,517,240</u>		<u>3.0%</u>
	Total:	<u><u>37,241,377</u></u>		<u><u>7.2%</u></u>

Note:

Mr. Chung Yan Yee, Andrew is an executive Director and the Chief Financial Officer of the Group. Mr. Chung joined the Group in August 2002.

Mr. Cheung Ka Kin is an executive Director and the Chief Operation Officer and project manager of the Group. Mr. Cheung is also a director of i-tvc.net Limited. Mr. Cheung joined the Group in November 2000.

Ms. Wong Cheung Yun is a non-executive Director. Ms. Wong joined the Group in May 2002.

Ms. Han Seung A is a non-executive Director and a director of Art Global, i-tvc.net Limited and i-tvc.net (HK) Limited. Ms. Han joined the Group in June 2001.

Mr. Jeon Sang Hoon has been engaged as a contractor for the Group since April 2001 and he was employed by the Group in June 2002 as the Chief Creative Officer (Rich Media).

Mr. Kang Tae Wook has been engaged as a contractor for the Group since April 2001 and he was employed by the Group in June 2002 as the Chief Creative Officer (Design).

Mr. Wu Xin Jun has been engaged as a contractor for the Group since June 2001 and he was employed by the Group in June 2002 as the Chief Technology Officer.

Mr. Fu Siu Yau has been engaged as a contractor for the Group since April 2001 and joined the Group in June 2002 as the Creative Director (Design) of the Group.

Mr. Yun Yong Ho has been engaged as a contractor for the Group since April 2001 and joined the Group in June 2002 as Creative Director (Rich Media) of the Group.

Assuming that all the options granted under the Pre-IPO Share Option Scheme are exercised and there is no exercise of the Over-allotment Option, the percentage of Shares then held by members of the public will reduce to approximately 23.2%.

Mr. Chung Yan Yee, Andrew was involved in the preparation for the listing of the Shares on GEM and the options were granted to him in recognition of his efforts.

Mr. Cheung Ka Kin has been a core management staff member of the Group and has been overseeing the operation and projects of the Group since he joined the Group in November 2000. The options were granted to him in recognition of his contribution to the Group's development.

Each of Mr. Jeon Sang Hoon, Mr. Kang Tae Wook, Mr. Wu Xin Jun, Mr. Fu Siu Yau and Mr. Yun Yong Ho has been working for the Group either as an employee or a contractor since mid-2001 and has been working towards the improvement of the Group's products and technologies both on the technical side and the creative side. The options were granted to them as a recognition of their performance.

Ms. Wong Cheung Yun has experience in doing business in the PRC and has been assisting the Group in building up business relationships. Ms. Han Seung A has been assisting the Group to generate client and business partners in Korea. The options were granted to them in recognition of their efforts in exploring new markets for the Group.

Each of the Directors and the Company has undertaken to the Stock Exchange that in the event that the minimum public float required under Rule 11.23 of the GEM Listing Rules is not met as a result of the exercise of any of the options granted under the Pre-IPO Share Option Scheme, he or it will procure that the minimum public float be restored as soon as practicable and in any event within three months. In addition, the relevant Directors and the senior management of the Group have also undertaken not to exercise their options should any of their exercise would lead to a fall in the shareholdings of the Company held by members of the public to be below 25%.

3. Summary of the principal terms of the Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally approved by the sole member of the Company by a written resolution passed on 26th October, 2002:

(a) *Purpose of the Share Option Scheme*

The Share Option Scheme seeks to recognise and acknowledge the contributions or potential contributions made or to be made by the Qualified Persons (as defined below) to the Group and to motivate the Qualified Persons to optimise their performance and efficiency for the benefit of the Group.

(b) *Administration of the Share Option Scheme*

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters relating to the Share Option Scheme or its interpretation or effect (save as otherwise provided therein) shall be final and binding on all parties affected thereby. Without limiting the generality of the foregoing, the Board shall have the ultimate power to determine whether a person is eligible to participate in the Share Option Scheme.

(c) *Who may join*

The Board shall be entitled but shall not be bound to offer to grant to any full-time employee of any member of the Group or any company in which the Company directly or indirectly holds more than 20% of its issued share capital or voting power at general meeting or in which an equity interest is held by the Company for long term purpose and a significant influence is exercised over its management (“Associated Company”) or any director (executive or non-executive) of any member of the Group or any contractor, supplier, customer, agent or adviser of the Group (“Qualified Person”) as the Board may in its absolute discretion select and subject to such conditions as the Board may think fit an option to subscribe for such number of Shares as the Board may determine at a subscription price determined in accordance with paragraph (e) below. Upon acceptance of the option, the Qualified Person shall pay HK\$10.00 to the Company by way of consideration for the grant.

(d) *Grant of options*

No grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of the GEM Listing Rules. Without prejudice to the foregoing, no option shall be granted, during the period of one month immediately preceding the earlier of (i) the date of the Board meeting as shall have been notified to the Stock Exchange for approving the Company's results for any year, half-year or quarter-year period and (ii) the deadline for the Company to publish announcement of its results for any year, half-year or quarter-year period, and ending on the date of the relevant results announcement.

(e) *Price of Shares*

The subscription price of a Share in relation to an option offered to a Qualified Person shall, subject to any adjustment pursuant to paragraph (p) below, be a price notified by the Board to such Qualified Person as set out in the offer letter. Such price shall be the highest of (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date of offer; (b) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five (5) business days immediately preceding the date of offer (for the purpose of calculating the subscription price where the Company has been listed for less than five business days, the Offer Price shall be used as the closing price for any business day falling within the period before listing); and (c) the nominal value of the Shares.

(f) *Maximum number of Shares available for subscription*

- (i) Subject to sub-paragraph (ii), (iii) and (iv) below, the limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed such number of Shares as shall represent 30% of the Shares in issue from time to time.
- (ii) The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes must not in aggregate exceed 10% of the Shares ("Scheme Limit") in issue as at the date on which dealings in the Shares on GEM first commence i.e. 48,000,000 Shares. For the purpose of calculating the Scheme Limit, options which have lapsed in accordance with the terms of the Share Option Scheme shall not be counted.
- (iii) The Company may seek approval by its Shareholders in general meeting for refreshing the Scheme Limit as referred to in sub-paragraph (ii) above, provided that the total number of Shares in respect of which options may be granted under the Share Option Scheme and any other schemes of the Company under the Scheme Limit as being refreshed must not exceed 10% of the total number of Shares in issue as at the date when such Scheme Limit is approved by the Shareholders. For the foregoing purpose, options previously granted under the Share Option Scheme and any other share option

schemes of the Company, whether outstanding, cancelled, lapsed in accordance with its applicable rules or already exercised, will not be counted. A circular will be sent by the Company to the Shareholders in accordance with the GEM Listing Rules.

- (iv) Subject to sub-paragraph (i) above, the Company may seek separate approval by the Shareholders in general meeting for granting options beyond the Scheme Limit, provided that the options in excess of the Scheme Limit are granted only to participants specifically identified before such approval is sought. A circular will be sent by the Company to the Shareholders in accordance with the GEM Listing Rules.

(g) *Maximum entitlement of each grantee*

Unless separately approved by the Shareholders in general meeting in the manner as prescribed in the GEM Listing Rules, the total number of Shares issued and to be issued upon exercise of options granted to each Qualified Person (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the Shares then in issue.

(h) *Grant of options to connected persons*

- (i) Any grant of options to a director, chief executive, management shareholder or substantial shareholder of the Company or any of their respective associates (“Related Person”) must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of such options).
- (ii) Without prejudice to sub-paragraph (i) above, any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates shall comply with sub-paragraphs (iii) and (iv) below if such proposed grant of options, when aggregated with all options (whether exercised, cancelled or outstanding) already granted to that Related Person during the 12-month period immediately preceding the date of such grant of options, would entitle him to receive more than 0.1% of the total issued Shares for the time being and the aggregate value of which by reference to the closing price of the Shares on the Stock Exchange at the date of each grant is in excess of HK\$5,000,000 (or such higher amount as shall be permissible under the GEM Listing Rules from time to time).
- (iii) Any grant of options referred to in sub-paragraph (ii) must, in addition to obtaining the approval of the independent non-executive Directors pursuant to sub-paragraph (i), be approved by Shareholders in general meeting where all connected persons of the Company must abstain from voting irrespective of whether they are grantees of the options concerned or not save and except a connected person may vote against the proposed grant in the general meeting, provided that his intention so to do has been stated in a circular to be despatched to the Shareholders in accordance with sub-paragraph (iv) below. Any vote taken at such general meeting to approve the grant of such options must be taken on a poll.

(iv) The circular to the Shareholders referred to in sub-paragraph (iii) above must be despatched to the Shareholders no later than the date on which the Company gives notice of the general meeting to approve the proposed grant of options referred to in sub-paragraph (ii) containing:

(aa) details of the number and terms (including the exercise price) of the options to be granted to each grantee, which must be fixed before the general meeting;

(bb) a recommendation from the independent non-executive Directors (excluding independent non-executive Director who is also the grantee of the relevant options) on whether or not to vote in favour of the proposed grant; and

(cc) any other information as may be required under the GEM Listing Rules.

(i) *Terms of exercise of option*

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option. The Board may provide the terms on which the option is to be granted and may, if the Board so determines, specify, a minimum period for which an option must be held or a performance target which must be achieved before an option can be exercised.

(j) *Rights are personal to grantee*

An option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt to do so (save that the grantee may nominate a nominee to hold the Shares to be issued pursuant to the exercise of options granted under the Share Option Scheme on trust for the sole benefit of such grantee provided that evidence of such trust arrangement between the grantee and the nominee shall be provided to the satisfaction of the Company).

(k) *Rights on cessation of employment by dismissal*

If the grantee of an option is an employee and ceases to be a Qualified Person by reason of the termination of his or her employment on any one or more of the grounds that he or she has been guilty of misconduct, or has committed an act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or on any other ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Company or the relevant subsidiary or the relevant Associated Company (as the case may be), his or her option will lapse on the date on which the grantee ceases to be a Qualified Person.

(l) *Rights on death*

If the grantee (being an individual) ceases to be a Qualified Person by reason of death and, in case such grantee is an employee, none of the events which would be a ground for termination of his or her employment under paragraph (k) has arisen, the legal personal representative(s) of the grantee shall be entitled within a period of 12 months from the date of death (or such longer period as the Board may determine) to exercise the option in full (to the extent not already exercised).

(m) *Rights on cessation of employment for other reasons*

In the event that the grantee being an employee ceases to be a Qualified Person by reason of retirement in accordance with the terms of his or her contract of employment or by virtue of any statutory requirement and none of the events which would be a ground for termination of his or her employment as specified in paragraph (k) has arisen, the grantee shall be entitled within a period of 12 months from the date of retirement (or such longer period as the Board may determine) to exercise the option up to the grantee's entitlement (to the extent not already exercised). In the event that the grantee being an employee ceases to be a Qualified Person for any reason other than his or her death or termination of his or her employment on one or more of the grounds specified in paragraph (k) or retirement in accordance with the terms of his or her contract of employment or by virtue of any statutory requirement, the grantee may exercise the option up to his or her entitlement at the date of cessation (to the extent not already exercised) within the period of one month following the date of such cessation, which date shall be the last actual working day with the Company or the relevant subsidiary or the relevant Associated Company (as the case may be) whether salary is paid in lieu of notice or not.

(n) *Rights on ceasing to be Qualified Person (non-employee)*

In the event that the grantee being a non-employee in the absolute opinion of the Board ceases to be qualified as a Qualified Person by reason of termination of its business relation with the relevant member of the Group or otherwise, such grantee shall be entitled within a period of one month from the date of termination (or such other period as the Board may determine) to exercise the option up to its entitlement (to the extent not already exercised).

(o) *Cancellation of options granted*

Subject to the consent from the relevant grantee, the Board may in its discretion cancel options previously granted to, and yet to be exercised by, such grantee for the purpose of re-issuing new options to such grantee provided that there are sufficient available unissued options (excluding such cancelled options) for such re-issuance under the Scheme Limit.

(p) *Effects of alterations to share capital*

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of capitalisation issue, rights issue, consolidation, subdivision or reduction of the share capital of the Company (other than an issue of Shares as consideration in respect of a transaction to which the Company is a party), the Board shall make (and shall notify to the grantee) such corresponding alterations (if any) in:

- (i) the number or amount of Shares subject to any option so far as such option remains unexercised; and/or
- (ii) the subscription price; and/or
- (iii) the method of exercise of the option,

as the independent financial adviser or the auditors of the Company shall certify in writing to the Board to be in their opinion fair and reasonable, provided that any alteration shall be made on the basis that the proportion of the issued share capital of the Company to which a grantee is entitled after such alteration shall remain the same as that to which he was entitled before such alteration, but so that no such alteration shall be made the effect of which would be to enable any Share to be issued at less than its nominal value. The capacity of the independent financial adviser or the auditors in this paragraph is that of experts and not of arbitrators and their certification shall be final and binding on the Company and the grantees.

(q) *Rights on a general offer*

If a general offer is made to all holders of Shares (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, the grantee (or his or her legal personal representatives) shall be entitled to exercise the option in full (to the extent not already exercised) at any time within fourteen (14) days after the date on which the offer becomes or is declared unconditional.

(r) *Rights on winding up*

In the event of an effective resolution being passed for the voluntary winding-up of the Company, the grantee (or his or her legal personal representatives) may by notice in writing to the Company within twenty-one (21) days after the date of such resolution elect to be treated as if the option (to the extent not already exercised) had been exercised immediately before the passing of such resolution either to its full extent or to the extent specified in the notice, such notice to be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given, whereupon the grantee will be entitled to receive out of the assets available in the liquidation *pari passu* with the holders of Shares such sum as would have been received in respect of the Shares the subject of such election.

(s) *Rights on compromise or arrangement*

In the event of a compromise or arrangement between the Company and the Shareholders or its creditors being proposed in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies, the Company shall give notice thereof to the grantee (or his or her personal representative(s)) on the same day as it gives notice of the meeting to the Shareholders or its creditors to consider such compromise or arrangement, and thereupon the grantee (or his or her personal representative(s)) may, during the period commencing on the date of the aforesaid notice and ending on the earlier of the date two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the court, exercise any of the option whether in full or in part, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the Court and becoming effective. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as previously exercised under the Share Option Scheme. The Company may require the grantee (or his or her personal representative(s)) to transfer or otherwise deal with the Shares issued as a result of the exercise of options in these circumstances so as to place the grantee in the same position as nearly as would have been the case had such Shares been subject to such compromise or arrangement.

(t) *Ranking of Shares*

The Shares to be allotted upon exercise of an option will be subject to all the provisions of the memorandum of association and the articles of association of the Company for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment other than any dividend or other distributions previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment. Unless the context otherwise requires, reference to “Shares” in the Share Option Scheme includes shares of HK\$0.01 each (or of such other nominal amount as comprising the ordinary share capital of the Company as shall result from a sub-division or a consolidation of the share capital of the Company from time to time) of the Company.

(u) *Period of the Share Option Scheme*

Subject to earlier termination by the Company by ordinary resolutions in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of ten (10) years commencing on the date on which the Share Option Scheme becomes unconditional and effective (the “Adoption Date”) and expiring on the tenth anniversary of the Adoption Date. After the expiry of the ten-year period, no further options will be granted but the provisions of the Share Option Scheme shall remain in force in all other respects.

(v) *Termination of the Share Option Scheme*

The Company may by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further options will be offered but the provisions of the Share Option Scheme shall remain in force in all other respects. Options complying with the provisions of Chapter 23 of the GEM Listing Rules which are granted during the life of the Share Option Scheme and remain unexpired immediately prior to the termination of the operation of the Share Option Scheme shall continue to be exercisable thereafter until the expiry of the relevant option period. Details of the options granted, including the options exercised or outstanding, under the Share Option Scheme, must be disclosed in the circular to Shareholders seeking approval of the first new scheme to be established after such termination.

(w) *Lapse of option*

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

- (i) the expiry of the option period;
- (ii) the expiry of the periods referred to in paragraphs (l), (m), (n), (q), (r), (s), respectively;
- (iii) subject to paragraph (r), the date of the commencement of the winding-up of the Company;
- (iv) subject to the scheme of arrangement or compromise becoming effective, the expiry of the period referred to in paragraph (s);
- (v) where the grantee of an option is an employee, the date on which he or she ceases to be a Qualified Person by reason of the termination of his or her employment on grounds including, but not limited to, misconduct, bankruptcy, insolvency and conviction of any criminal offence;
- (vi) the date on which the grantee sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation to the option in breach of the Share Option Scheme;
- (vii) if an option was granted subject to certain conditions, restrictions or limitations, the date on which the Board resolves that the grantee has failed to satisfy or comply with such conditions, restrictions or limitations;

- (viii) in respect of the grantee being a contractor or adviser (whether individual or corporation), the date on which the Board resolves that the contractor or adviser fails to comply with any provisions of the relevant contract, or breaches its fiduciary duty under the common law;
 - (ix) the occurrence of such event or expiry of such period as may have been specifically provided for in the offer letter, if any.
- (x) *Alterations to the Share Option Scheme*

The Share Option Scheme may be altered in any respect by resolution of the Board except that the provisions of the Share Option Scheme which relate to the matters set out in Rule 23.03 of the GEM Listing Rules shall not be altered to the advantage of grantees or prospective grantees except with the prior sanction of a resolution of the Company in general meeting, provided that no such alteration shall operate to affect adversely the terms of issue of any option granted or agreed to be granted prior to such alteration except with the consent or sanction of such majority of the grantees as would be required of the Shareholders under the articles of association for the time being of the Company for a variation of the rights attached to the Shares and provided further that any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of options granted shall first be approved by the shareholders of the Company in general meeting, except where such alterations take effect automatically under the existing terms of the Share Option Scheme.

Any change to the authority of the Board or the administrators of the Share Option Scheme in relation to any alteration to the terms of the Share Option Scheme shall be approved by the Shareholders in general meeting.

4. Present status of the Share Option Scheme

The Share Option Scheme is conditional on the GEM Listing Committee granting approval of such scheme and the grant of options thereunder and granting of the listing of and permission to deal in the Shares to be issued as mentioned therein.

If the above condition is not satisfied, the Share Option Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.

As at the Latest Practicable Date, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

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

OTHER INFORMATION**1. Estate duty and other tax indemnity**

Each of Mr. Chan and City Pacific Ventures Limited (together, the “Indemnifiers”) has entered into a deed of indemnity with and in favour of the Company and each member of the Group (being the material contract referred to under “Summary of material contracts” in this appendix) providing indemnities and keep the Company and each member of the Group at all times indemnified, on a joint and several basis, in respect of, among other matters:

- (a) (i) any duty which is or hereafter becomes payable by any member of the Group by virtue of section 35 of the Estate Duty Ordinance (Chapter 111 of the laws of Hong Kong) by reason of the death of any person and by reason of the assets of any 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 member of the Group;
- (ii) any amount recovered against any 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 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 member of the Group;
- (iii) any amount of duty which any 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 is 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 member of the Group having received any distributed assets of that other company on their distribution within the meaning of the Estate Duty Ordinance;
- (iv) the amount of any and all taxation falling on any member of the Group resulting from or by reference to any income, profits, gains, transactions, events, matters or things earned, accrued, received, entered into up to the date on which the Placing becomes unconditional, whether alone or in conjunction with any other circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company, including any and all taxation resulting from the receipt by any member of the Group of any amounts paid by the Indemnifiers under the deed of indemnity; and

- (v) all reasonable costs (including all legal costs), expenses, interests, penalties or other liabilities which any member of the Group may properly and reasonably incur in connection with:
 - (a) the investigation, assessment or the contesting of any claim;
 - (b) the settlement of any claim under the deed of indemnity;
 - (c) any legal proceedings in which any member of the Group claims under or in respect of the Deed of Indemnity and in which judgment is given in favour of any member of the Group; or
 - (d) the enforcement of any such settlement or judgment.
- (b) the Indemnifiers will, however, not be liable under the deed of indemnity:
 - (i) to the extent that adequate provision or reserve was made in the audited accounts of the Group up to 30th June, 2002 in respect of such tax liability or to the extent that payment or discharge of such tax liability was taken into account in the audited accounts of the Group up to 30th June, 2002 or to the extent that such tax liability was discharged prior to 30th June, 2002;
 - (ii) to the extent that such taxation or claim arises or is incurred as a result of the imposition of taxation or claim as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or any other relevant authority coming into force after the date of the deed of indemnity or to the extent such taxation or claim arises or is increased by an increase in rates of taxation or the amount of claim after the date of the deed of indemnity with retrospective effect;
 - (iii) arising from the ordinary course of the normal business of the Company as a consequence of any event which occurred, or in respect of or by reference to any income, profits or gains earned, accrued or received, after 30th June, 2002 but on or before the date on which Placing has become unconditional;
 - (iv) to the extent it would not have arisen but for a voluntary act or omission of any member of the Group (or person deriving title from it) after the Placing has become unconditional (which, for clarity, shall not include the presentation for stamp duty purposes of any document) which any member of the Group knew or ought reasonably to have foreseen would give rise to the tax liability and which could reasonably have been avoided, unless such act or omission was carried out:
 - (a) pursuant to an obligation (whether or not legally binding) of the Company incurred prior to the date of the deed of indemnity; or

- (b) in compliance with any law, regulation or request (whether or not having the force of law) of any competent authority for tax purposes; or
- (c) with the agreement or at the request of the Indemnifiers;
- (v) to the extent that a claim in respect of the same taxation or claim has already been made under the deed of indemnity by either the Company or any member of the Group; and
- (vi) for any penalty imposed on the Company or any member of the Group under section 42 of the Estate Duty Ordinance by reason of the Company or any member of the Group defaulting at any time hereof on any obligation to give information to the Commissioner under section 42 (1) of the Estate Duty Ordinance, but the Indemnifiers shall be liable for any interest on unpaid estate duty.

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 Cayman Islands and the BVI.

2. Sponsor

The Sponsor has made an application on behalf of the Company to the GEM Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein.

The Sponsor will receive normal professional fees in connection with the advisory services to be provided to the Company for a period covering the remainder of the financial year ending 31st March, 2003 and the two financial years thereafter.

3. Litigation

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

4. Address for service of process and notices

Mr. Chan and Mr. Cheung Ka Kin have been nominated as the authorised persons to accept service of process and notices on behalf of the Company. The address for service of process and notices is 10th Floor, 99 Hennessy Road, Wan Chai, Hong Kong.

5. Preliminary expenses

The estimated preliminary expenses of the Company are approximately HK\$43,500 and are payable by the Company.

6. Promoter

The Company does not have a promoter.

7. Qualifications of experts

The qualifications of the experts who have given opinions in this prospectus and/or whose names are included in this prospectus are as follows:

South China Capital Limited	Registered Investment Adviser
Deloitte Touche Tohmatsu	Certified Public Accountants
Truman Bodden & Company	Cayman Islands attorneys-at-law
B.I. Appraisals Limited	Professional surveyors and property valuers

8. Consents of experts

Each of South China Capital, Deloitte Touche Tohmatsu, Truman Bodden & Company and B.I. Appraisals Limited has given and has not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, valuation, letters or opinions (as the case may be) and the references to their names or summaries of opinions included in this prospectus in the form and context in which they are respectively included.

9. 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.

10. Particulars of the Vendor

Name	Description	Address	Cash consideration for the Sale Shares	Number of Sale Shares
City Pacific Ventures Limited	A company incorporated on 18th April, 2002 in the BVI and one of the Initial Management Shareholders	P.O. Box 3152 Road Town Tortola BVI	HK\$10,000,000	40,000,000

11. Miscellaneous

Save as disclosed in this prospectus:

- (a) within two years immediately preceding the date of this prospectus:
 - (i) 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;
 - (ii) 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;
 - (iii) no commission has been paid or payable except commission to sub-underwriters for subscribing, agreeing to subscribe, processing or agreeing to procure subscription of any shares in the Company or any of its subsidiaries;
 - (iv) 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;
- (b) there has been no material adverse change in the financial or trading position of the Group since 30th June, 2002 (being the date to which the latest audited consolidated financial statements of the Group were made up);
- (c) there has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group;
- (d) the Company has no founder shares, management shares or deferred shares;
- (e) 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 Butterfield International (Cayman) Ltd. and a branch register of members of the Company will be maintained in Hong Kong by Tengis 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;
- (f) all necessary arrangements have been made to enable the Shares to be admitted to CCASS;
- (g) the Group has no present intention to change the nature of its business in the near future;

- (h) no company within the Group is presently listed on any stock exchange or traded on any trading system;
- (i) none of the Sponsor, the Initial Management Shareholders, the substantial shareholders or the controlling shareholders of the Company or any of their respective associates has any interest in a business which competes or may compete with the business of the Group and have no conflict of interest with the Group; and
- (j) none of Sponsor and each of the professional parties involved in the Placing:
 - (i) is interested beneficially or non-beneficially in any shares in any member of the Group, or
 - (ii) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group, or
 - (iii) is an officer or servant or a partner of and in the employment of an officer or servant of the Group.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus registered by the Registrar of Companies in Hong Kong were the written consents referred to under “Consents of experts” in Appendix IV to this prospectus, a statement of the adjustments made by Deloitte Touche Tohmatsu in arriving at the figures set out in their accountants’ report and giving their reasons therefor, copies of the material contracts referred to under “Summary of material contracts” in Appendix IV to this prospectus and a statement as to the name, description and address of the Vendor.

DOCUMENTS AVAILABLE FOR PUBLIC INSPECTION

Copies of the following documents will be available for public inspection at the offices of Koo and Partners *in association with* Paul, Hastings, Janofsky & Walker LLP at 22nd Floor, Bank of China Tower, One Garden Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the memorandum of association and the articles of association of the Company;
- (b) the accountants’ report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus, together with the statement of adjustments;
- (c) such audited financial statements of each of the companies now comprising the Group for the First Relevant Period, the Second Relevant Period and the Third Relevant Period or since their respective dates of incorporation where there was a shorter period;
- (d) the letter and valuation certificate prepared by B.I. Appraisals Limited in respect of the property interest of the Group, the text of which is set out in Appendix II to this prospectus;
- (e) the letter of advice, prepared by Truman Bodden & Company, summarising certain aspects of the Cayman Islands company law referred to under “General” in Appendix III to this prospectus;
- (f) the Companies Law;
- (g) the rules of the Pre-IPO Share Option Scheme and the Share Option Scheme;
- (h) the material contracts referred to under “Summary of material contracts” in Appendix IV to this prospectus;

- (i) the service contracts referred to under “Particulars of the Directors’ service contracts” in Appendix IV to this prospectus;
- (j) the written consents referred to under “Consents of experts” in Appendix IV to this prospectus; and
- (k) a list of the name, description and address of the Vendor.